

103
U.S. CUSTOMS SERVICE'S ABILITY TO ACCU-
RATELY DETERMINE THE VALUE OF IMPORTED
GOODS ENTERING THE UNITED STATES

Y 4. W 36: 103-20

U.S. Customs Service's Ability to A...

HEARING
BEFORE THE
SUBCOMMITTEE ON OVERSIGHT
OF THE
COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRD CONGRESS
FIRST SESSION

JUNE 17, 1993

Serial 103-20

Printed for the use of the Committee on Ways and Means



OCT 21 1993

U.S. GOVERNMENT PRINTING OFFICE

71-139 CC

WASHINGTON : 1993

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-041351-6

103
U.S. CUSTOMS SERVICE'S ABILITY TO ACCU-
RATELY DETERMINE THE VALUE OF IMPORTED
GOODS ENTERING THE UNITED STATES

Y 4. W 36: 103-20

U.S. Customs Service's Ability to A...

HEARING
BEFORE THE
SUBCOMMITTEE ON OVERSIGHT
OF THE
COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRD CONGRESS
FIRST SESSION

JUNE 17, 1993

Serial 103-20

Printed for the use of the Committee on Ways and Means



OCT 21 1993

U.S. GOVERNMENT PRINTING OFFICE

71-139 CC

WASHINGTON : 1993

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-041351-6

COMMITTEE ON WAYS AND MEANS

DAN ROSTENKOWSKI, Illinois, *Chairman*

SAM M. GIBBONS, Florida
J.J. PICKLE, Texas
CHARLES B. RANGEL, New York
FORTNEY PETE STARK, California
ANDY JACOBS, JR., Indiana
HAROLD E. FORD, Tennessee
ROBERT T. MATSUI, California
BARBARA B. KENNELLY, Connecticut
WILLIAM J. COYNE, Pennsylvania
MICHAEL A. ANDREWS, Texas
SANDER M. LEVIN, Michigan
BENJAMIN L. CARDIN, Maryland
JIM McDERMOTT, Washington
GERALD D. KLECZKA, Wisconsin
JOHN LEWIS, Georgia
L.F. PAYNE, Virginia
RICHARD E. NEAL, Massachusetts
PETER HOAGLAND, Nebraska
MICHAEL R. McNULTY, New York
MIKE KOPETSKI, Oregon
WILLIAM J. JEFFERSON, Louisiana
BILL K. BREWSTER, Oklahoma
MEL REYNOLDS, Illinois

BILL ARCHER, Texas
PHILIP M. CRANE, Illinois
BILL THOMAS, California
E. CLAY SHAW, JR., Florida
DON SUNDQUIST, Tennessee
NANCY L. JOHNSON, Connecticut
JIM BUNNING, Kentucky
FRED GRANDY, Iowa
AMO HOUGHTON, New York
WALLY HERGER, California
JIM McCRERY, Louisiana
MEL HANCOCK, Missouri
RICK SANTORUM, Pennsylvania
DAVE CAMP, Michigan

JANICE MAYS, *Chief Counsel and Staff Director*
CHARLES M. BRAIN, *Assistant Staff Director*
PHILLIP D. MOSELEY, *Minority Chief of Staff*

SUBCOMMITTEE ON OVERSIGHT

J.J. PICKLE, Texas, *Chairman*

HAROLD E. FORD, Tennessee
CHARLES B. RANGEL, New York
WILLIAM J. JEFFERSON, Louisiana
BILL K. BREWSTER, Oklahoma
GERALD D. KLECZKA, Wisconsin
JOHN LEWIS, Georgia

AMO HOUGHTON, New York
WALLY HERGER, California
MEL HANCOCK, Missouri
RICK SANTORUM, Pennsylvania

CONTENTS

	Page
Press release of Friday, June 11, 1993, announcing the hearing	2

WITNESSES

U.S. Customs Service, Hon. George Weise, Commissioner of Customs, William F. Inch, Director, Office of Regulatory Audit, and Samuel H. Banks, Assistant Commissioner for Commercial Operations	6
--	---

SUBMISSIONS FOR THE RECORD

American Association of Exporters and Importers, statement	117
Floral Trade Council, Timothy J. Haley, David F. Machtel, Jr., Eugene L. Stewart, et al., statement	119
Timkin Co., Canton, Ohio, Scott A. Scherff, Eugene L. Stewart, et al., statement and attachment	125

**U.S. CUSTOMS SERVICE'S ABILITY TO AC-
CURATELY DETERMINE THE VALUE OF
IMPORTED GOODS ENTERING THE UNITED
STATES**

THURSDAY, JUNE 17, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON OVERSIGHT,
Washington, D.C.

The subcommittee met, pursuant to call, at 9:37 a.m., in room B-318, Rayburn House Office Building, Hon. Harold E. Ford presiding.

[The press release announcing the hearing follows:]

FOR IMMEDIATE RELEASE
FRIDAY, JUNE 11, 1993

PRESS RELEASE #10
SUBCOMMITTEE ON OVERSIGHT
U.S. HOUSE OF REPRESENTATIVES
1135 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-5522

THE HONORABLE J. J. PICKLE (D., TEXAS), CHAIRMAN,
SUBCOMMITTEE ON OVERSIGHT, COMMITTEE ON WAYS AND MEANS,
U.S. HOUSE OF REPRESENTATIVES,
ANNOUNCES A HEARING TO REVIEW THE U.S. CUSTOMS SERVICE'S
ABILITY TO ACCURATELY DETERMINE THE VALUE OF IMPORTED GOODS
ENTERING THE UNITED STATES

The Honorable J. J. Pickle (D., Texas), Chairman of the Subcommittee on Oversight, Committee on Ways and Means, U.S. House of Representatives, announced today that the Subcommittee will conduct a hearing to review the ability of the U.S. Customs Service (Customs) to accurately determine the value of imported goods entering the United States. The hearing has been scheduled for Thursday, June 17, 1993, beginning at 9:30 a.m., in room B-318 Rayburn House Office Building. The Subcommittee will receive testimony from the Commissioner of Customs.

BACKGROUND

Customs collects annually approximately \$20 billion in duties, taxes, and fees from importers and international travelers. In almost all cases, the amount owed to Customs (whether it is in the form of duties, taxes, or fees) is a percentage of the value of imported goods. Importers must disclose to Customs the value of imported goods at the time they are entered into the United States. However, it is Customs' responsibility to determine whether an importer's claimed value is correct.

Under current law, Customs may demand documentation to support an importer's claimed value. Current law also provides Customs with access to an importer's books and records and, in cases involving foreign-based multinational corporations, access to the parent corporation's books and records. However, Customs does not have access to taxpayer information maintained by the Internal Revenue Service (IRS).

PURPOSE AND SCOPE OF THE HEARING

The purpose of the hearing is to receive testimony from Customs about its regulatory audit program and how Customs determines whether an importer's valuation of goods, for duty and other purposes, is correct. Of particular interest is Customs' experience in using voluntarily-supplied tax return information in the process of determining an import's correct value, and the utility of this information in the audit process.

During the hearing, the Subcommittee will examine several cases where Customs has used tax returns, voluntarily supplied to Customs by the importers, in the course of conducting audits of the value claimed by the importers. In one case, an importer's tax returns showed much higher amounts for its costs-of-goods-sold deductions than it had claimed as the Customs value for its imports during the same period. When Customs asked the importer to document its costs by using cancelled checks and other bank records, Customs discovered that the importer had paid almost \$3 million more for the imports than it claimed they were worth when it filed its entries, and additional duty was assessed.

In another case, an importer represented to Customs that he was in the business of facilitating assembly of wearing apparel in Mexico for a number of U.S. wholesalers. The importer, a sole proprietor, claimed that he had an arms-length relationship with the assembler, a maquiladora, in Mexico. At the same time, he reported to IRS on his tax return that he was an employee of the maquiladora and earned no

(MORE)

income other than the salary paid to him by the maquiladora. Customs determined that this importer undervalued his imported merchandise by over \$2 million during the period from 1986 to 1989, and additional duty was assessed.

In another case, Customs used an importer's tax returns to identify payments made to an overseas trading company totaling approximately \$3 million. These payments were included in the costs-of-goods-sold deductions claimed on its tax returns, but were not included in its statements of value reported to Customs. In investigating the nature of these payments, Customs determined that the \$3 million was not related to the importer's business and, therefore, not dutiable. Also, since these payments may not be deductible for tax purposes either, Customs referred the case to IRS.

Finally, in another case, an importer retained two sets of invoices for its imports, one for Customs purposes and the other for tax purposes. When the importer filed its entries with Customs, it attached only one set of invoices and claimed that the total value of its imports for a two-year period was approximately \$27 million. When filing its tax returns for the same period, it used amounts from both sets of invoices and claimed costs-of-goods-sold deductions of more than \$119 million, a difference of over \$90 million. Again, this case was referred to IRS.

In announcing the hearing Chairman Pickle said: "The Subcommittee has been aware for some time that some importers, particularly some importers who are related to their overseas suppliers, have been taking advantage of how our Government administers our tax and tariff laws. They know that our various agencies, such as Customs and IRS, are not able to share information systematically and effectively. Consequently, an unscrupulous importer may not get caught when claiming a low value on imports for Customs purposes and, at the same time, claiming a high costs-of-goods-sold deduction for tax purposes. Engaging in these abusive practices creates a "win-win" situation for the importer, minimizing both the duties that they pay Customs and the taxes they pay IRS. The public does not expect our Federal Government to accept such behavior. Something needs to be done!"

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Persons submitting written comments for the printed record of the hearing should submit six (6) copies by the close of business, Thursday, July 8, 1993, to Janice Mays, Chief Counsel and Staff Director, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.
4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

★ ★ ★ ★ ★

Mr. FORD. The Subcommittee on Oversight will come to order. I am delighted to chair these hearings today for the subcommittee chairman, Mr. Pickle, who is back at home in his district for a funeral today.

I am delighted to join with my other colleagues on the Committee on Ways and Means, Subcommittee on Oversight's hearing on the review of the U.S. Customs Service's import duty and audit program in this subcommittee hearing today.

We are here today to examine how the U.S. Customs Service determines the correct value and therefore the correct duty, taxes and fees owed for goods imported into the United States.

More specifically, we are going to examine whether and to what extent Customs has used voluntarily provided tax return information in the process of determining an importer's correct value, and the specific utility of this information in the audit process.

I have asked the new Customs Commissioner, the Honorable George Weise, an old friend and former employee of the Committee on Ways and Means, to first give the subcommittee some background on Customs' audit program. I have also asked the Commissioner to explain to the subcommittee how Customs determines the value of imported goods and for what purposes.

More importantly, I have asked the Commissioner to describe several cases illustrating how Customs uses voluntarily provided tax returns in the process of determining the correct value of imported goods and the results.

The subcommittee has been aware for some time that some importers have been taking advantage of how our government administers our tax and tariff laws. They know that Customs and IRS are not able to share information systematically and effectively. Consequently, an unscrupulous importer will probably not get caught when claiming a low value of imports for Customs purposes and at the same time claiming a high deduction for tax purposes. Engaging in these abusive practice creates a win/win situation for the importers, minimizing both the duties that they pay Customs and the taxes they pay the IRS.

Something needs to be done. So today we will look to Customs to sort out the issue for this subcommittee and hopefully would have the oversight subcommittee in the Treasury Department and especially the new Commissioner of Customs to lead us and give us some clear direction.

I welcome you, Mr. Weise, before the committee, once again welcome back to our subcommittee and the full committee on Ways and Means, and it is a real delight to have worked with someone over the years and to see now that you are on the other side of the table and we certainly look for your expertise and your willingness to lead us and to guide us and certainly to inform us and hopefully we will not only in this instance, but in many others, have an opportunity to continue to work together.

It is a policy of this subcommittee to have all witnesses sworn in and we would like to ask you to take the oath this morning. As is the practice for this subcommittee, I ask the panelist to raise his right hand to be administered the oath.

[Witness sworn.]

Mr. FORD. May the record reflect that the witness has said yes. At this time, I would like to recognize the Ranking Minority Member of the committee, Mr. Houghton.

Mr. HOUGHTON. Thank you very much, Mr. Chairman, for calling this committee hearing. It is important, timely. I know in reading the history of the Ways and Means Committee in the whole taxation policy of the United States Government that basically the revenue, the tax revenue which was generated when our country first started was all in tariffs and excises, and I guess quite a bit of money, something like \$19 billion comes through this process now.

It wouldn't be enough to keep our government going but it still is an important figure. Certainly there are issues about whether importers are really abiding by the law or not, and there are all sorts of examples where that is not happening, and I am sure, Mr. Weise, that you will be describing that.

On the other hand, of course the question is whether we are using this as sort of a scapegoat policy to try to unearth facts which really aren't in existence at all.

So the question really is access to tax returns by the Customs in order to submit and to assist in any audits. So without further ado, I welcome you here, and Mr. Banks and Mr. Inch.

I thank you, Mr. Chairman, and look forward to the whole process of this meeting.

Mr. FORD. Thank you very much. The Chair will recognize Mr. Hancock.

Mr. HANCOCK. Thank you, Mr. Chairman. I recognize that there is a definite problem that exists in this area. I do have the same reservations that I think probably every member of the panel and I think Congress will have, and that is the access to what historically has been confidential information.

I do think that we need to address the situation. I just would like to say that I think there should be an indication of probable cause and some way to give Customs access, but not to allow the potential of fishing expeditions, because I know, and I am sure that the panel knows, that in some cases the cost to the importer just as a result of an investigation, even though it finds everything is fine, but that can be very expensive on the part of the business community that has to spend the time.

So I believe in what we are attempting to do here, but I also think that there has to be some restrictions to prevent fishing expeditions. I know that Mr. Weise was not going to have any problem with that, but I also know that some future Customs administrator might use his power in a way that wouldn't be beneficial. So that is the only reservation that I have.

Thank you, Mr. Chairman.

Mr. FORD. Thank you, very much. Commissioner, let me once again welcome you back to the committee, the one that you served so long and worked so tirelessly for over the past 9 years.

Let me welcome you and would you also introduce the gentlemen who are accompanying you from your office here?

STATEMENT OF HON. GEORGE WEISE, COMMISSIONER OF CUSTOMS, U.S. CUSTOMS SERVICE, ACCOMPANIED BY WILLIAM F. INCH, DIRECTOR, OFFICE OF REGULATORY AUDIT, AND SAMUEL H. BANKS, ASSISTANT COMMISSIONER FOR COMMERCIAL OPERATIONS

Mr. WEISE. Thank you very much, Mr. Chairman. It obviously is a great pleasure for me to make my first appearance as Commissioner of Customs before the House of Representatives, before this august body.

Mr. FORD. We wanted you before you went over to the Senate.

Mr. WEISE. Unfortunately, I did have an appointment with the Senate Appropriations Committee last week, but this is my first appearance in the House of Representatives and I am so pleased, after spending only 5 weeks as Commissioner of Customs and 9 years serving this fine committee, I still am a little more uncomfortable being on this side of the table than that. But it is great to be in this room again where I feel so much at home.

And because I have only had 5 weeks of experience as Commissioner, I do have some real experts that I want to introduce. I have on my right Sam Banks, the Assistant Commissioner for Commercial Operations, and on my left, I have Bill Inch, the Director for the Office of Regulatory Audit, and I also have a lot of reinforcements behind me if one of the three of us can't respond to any particular questions.

There may be others that I will be calling upon to help in getting the record as clear as we possibly can on this very important issue.

But, Mr. Chairman, I would like to, before I get into the substance of the testimony, indicate how much I appreciate, and I think the Customs Service appreciates, the work of this Oversight Subcommittee over the years in the Customs area. They have made tremendous contributions to the Customs Service and although before I went down to the Customs Service, I think there has been some defensiveness over the years about the work of the Oversight Subcommittee. I think virtually everyone in Customs now clearly recognizes that we are a better agency as a result of the fine work of this committee, and I want to give Chairman Pickle absentia tremendous credit for his strong leadership and for you and the other Members of this committee, and coming from where I came from, if you will bear with me, I would also like to give credit to two staff people from this Oversight Subcommittee, Tom Arnold and Chris Smith who have worked diligently. They are household names within the Customs Service and a lot of people, when they hear their names, cringe a little bit, but they have done tremendous work in serving this subcommittee and also serving the Customs Service.

We are a better agency as I said because of the strong supporting work of this committee. As long as I am the Commissioner of Customs, we expect to work closely with the subcommittee, with the Congress, to ensure that we are trying to achieve the same objective.

I want the Customs Service to be the best agency it possibly can be. I want to make sure that we are effectively carrying out our laws and responsibilities and the mission that we are charged with

carrying out and I know that is the objective of this subcommittee and I look forward to a long working relationship as Commissioner.

Today, Mr. Chairman, I have come to describe the Customs regulatory audit program and how Customs determines the Customs value of imported goods. I will also provide case studies in using tax information to assist in determining correct values of imports.

Valuation of merchandise is complex and is becoming increasingly important for Customs' audits of multinational corporate firms as a number of such firms increase and they have become a predominant force in the international marketplace.

Before reviewing the current valuation situation, I believe it will be useful to place the problem within the context of our commercial processing system. When imported goods arrive at our airports, seaports or land border ports, Customs receives descriptive information about the goods from the importer or the agent. This data, usually submitted electronically, is processed through our automated commercial system to decide which merchandise must be examined or which documents must be reviewed.

Customs inspectors examine about 8 percent of all shipments entering the United States to determine if the goods are admissible. The next phase begins 10 days later when the importer submits a full declaration of the tariff classification, appropriate duty rate, the value of the goods, and the duty amount. The payment is also a part of this formal transaction.

Customs import specialists typically review these declarations to insure accuracy. The Customs Modernization bill, which I urge you to enact and this is an initiative I will be hopefully working very close with this committee, will place greater responsibility on the importer for submitting accurate, electronic information, including classification and value information.

Determining the appropriate value and its related rate of duty is the issue we are discussing today. The methodology for determining import value, the data to be used and the procedural rules are spelled out in international agreements, particularly the Customs Valuation Code of the General Agreement on Tariffs and Trade, the GATT.

As stipulated by the agreement, the Customs value is usually based on the price actually paid by the importer. This method of appraising the value of imported goods is commonly known as transaction value. It is used for most imported merchandise regardless of whether related parties are involved in the transaction.

However, the circumstances of related party transactions must be tested to establish the acceptability of such transaction value. If it is determined that the business relationship affected the price, then Customs must follow a set progression of rules to establish the correct value through a methodology other than transaction value.

These are the rules that our 1,250 Customs import specialists are responsible for evaluating when reviewing information supplied by importers. In practice, import specialists review the submitted entry for accuracy and if no problems are identified, the transaction is accepted and finalized by Customs, what we call liquidated in Customs terminology.

Entries are automatically liquidated within 1 year except when suspended or extended by Customs when additional information is necessary or legally required. If Customs amends the entry and if additional duty is required, the importer has a right to file a protest. During the protest period, the importer has the opportunity to substantiate the validity of the submitted information.

If the protest is ultimately denied by Customs, the importer still has the right to seek judicial review in the Court of International Trade. The appraised value is the key element in determining the duty for these transactions. This can become complicated when the transactions occur within multinational corporations.

These so-called transfer prices are an important concern for both the Customs Service and the Internal Revenue Service in determining duties, user fees and taxes. Customs has intensified its review of these transactions to determine if accurate values are being reported.

Congress has recognized that some companies have devised means of structuring their transactions so as to avoid the payment of duties and taxes. As a result, Congress enacted section 1059A of the Internal Revenue code to close this loophole.

We realize that this subcommittee and the IRS have been examining this issue since your subcommittee's hearing held in July 1990. It is an area in which I believe the Customs Service and the IRS have common concerns which will be evident in the examples that I will present today.

One common thread in these examples is that tax information voluntarily supplied by companies we audited has proven to be invaluable in analyzing the accuracy of the value claimed for imported goods. This tax information has also been critical in determining the acceptability of related party transaction values under the GATT valuation code.

It should also be noted that Customs' audits have uncovered information which has proven to be helpful to the Internal Revenue Service in determining tax liabilities.

In recognition of the problems being uncovered, Customs established a special task force almost 2 years ago to reinvigorate our valuation program. Upgraded training was implemented for all Customs personnel working with value-related issues.

The task force itself has evolved into a pilot National Customs Value Center responsible for setting our policies and procedures for value related issues.

The value center will operate in conjunction with our import specialists, regulatory auditors and other Customs functional groups. A critical component of the Customs value initiative is the regulatory audit program which we are discussing today.

Established in 1974, it has grown to approximately 360 personnel stationed in 26 regional and branch offices. The auditors conduct approximately 600 audits a year of all types. These include national audits, fraud audits and audits for compliance, user fees, special trade preference programs, such as the Canadian Free Trade Agreement.

In 1992, regulatory audit identified approximately \$167 million in recommended duty recoveries and penalties. The national audits, which review all aspects of an importer's transactions, employ

substantial Customs auditor time but have produced multimillion dollar returns to the government.

For example, the two largest national audits returned \$16 million and \$21 million respectively. Audits are selected and prioritized by highest potential revenue return. Many of these audits are based on referrals from other Customs functional areas, such as import specialists and inspectors, however, because of its many responsibilities, the regulatory audit program can conduct only a limited number of these resource intensive audits.

It has been Customs' long-range goal to audit every major importer every 5 years. But we are currently operating on a 25-year cycle. This is clearly unacceptable. I believe the audit program is a vital piece of our trade enforcement strategy and I will continue to emphasize its priority.

The problems confronting regulatory auditors are primarily centered on information access. We believe the Customs Modernization Act will alleviate most of the major problems, and once again, I hope we can get that enacted as soon as we possibly can.

However, we still face the problem of foreign records access which is a problem we share with the Internal Revenue Service. We also do not have access under the Internal Revenue laws to information companies prepare for the IRS even though such data would prove invaluable for Customs' audits. Undoubtedly, we could productively use many of the same records and cost information.

While the laws and regulations of the IRS and Customs require different audit approaches and analysis of data, both agencies need similar information. The extent to which Customs has routine and legal access to a company's tax information will facilitate effective Customs' audits.

This will contribute to the reduction of the Federal deficit and improve U.S. industries' competitiveness. In response to the subcommittee's request, I am presenting examples today of audits I believe will be of interest. Because of business confidentiality and ongoing court cases, company identity is concealed. However, you will note the areas of overlap with the Internal Revenue Service.

We believe information sharing would be beneficial to both agencies. In these example cases, the tax information was voluntarily supplied by the company to the Customs Service.

Mr. Chairman, Members have before them detailed descriptions of the examples of audit cases that I will now briefly summarize. In the first case, Customs reviewed and tabulated the total amount paid for imported goods as declared on the importer's Customs entries. To corroborate this information, Customs requested and received voluntarily supplied tax returns from the importer. Based on the tax return and substantiating records, Customs determined the importer had undervalued its imports by almost \$3 million and underpaid duties and taxes by about \$800,000.

In another case, the importer claimed to have no direct relationship with the foreign exporter, a maquiladora in Mexico. The importer stated that he only facilitated the assembly of goods for U.S. wholesalers and he stated on the Customs entry documents that there was no relationship which affected the declared values.

Upon reviewing the importer's personal tax return, again provided voluntarily to the Customs Service, it was learned, however,

that his only income was from wages from the Mexican maquiladora. He was actually an employee of the company. This triggered further audit which revealed the importer's direct involvement in undervaluing the shipments by almost \$6 million and preparing invalid claims resulting in over \$1.5 million in duties.

The third case disclosed that what was originally thought to be an undervaluation of Customs declarations but which turned out to be a false deduction on the importer's tax claim. The Customs audit revealed a related party transaction which prompted a request for the importer's tax return, once again voluntarily supplied.

The Customs auditors found \$1.4 million in commissions which were not listed on the Customs forms and ultimately proved to be falsely constructed. The Customs auditors discovered that these false business expenses were actually claimed as tax deductions on the Internal Revenue form. This case was referred to the Internal Revenue Service for them to proceed with.

In the fourth instance, the importer provided invoices to Customs that totaled \$28 million for goods imported over a 2-year period. During the course of the Customs' audit, the importer voluntarily provided the tax returns in an attempt to validate certain claims to Customs.

A full review of those tax returns disclosed claims to the Internal Revenue Service for cost of goods sold that totaled \$119 million. The discrepancy exceeded \$90 million. This case, again, was referred to the Internal Revenue Service.

Mr. Chairman, you have—and Members have before them an additional handout that I am going to walk through very quickly before opening this up for questions, to sort of illustrate the process that we go through in our audit division to put together these kinds of cases.

The first page of this handout basically is a summary for 1 year of what was discovered.

Mr. FORD. Which handout are you using? OK, I have it. The foreign purchases by—

Mr. WEISE. Foreign purchases, fiscal year 1989 is the first page, Mr. Chairman, and this basically is an elaboration on example one which I have already alluded to, but I wanted to show you an illustrative of some of the documents we worked to get to the point we did.

The first page simply is a summary for one calendar year of the fact that the declared value for Customs' purposes was \$303,996. The declared for IRS purposes was \$1.4 million and undeclared value for Customs' purposes of \$1.1 million, a rate of duty of 27.5 percent.

So for that one calendar year and this particular audit, because of the tax information that was available to us, we collected an additional \$303,000 in duties that were owed to the government. The next page of the handout shows the process.

What we had done, our internal auditors had put together all the inner values for the entire years looking at all the transactions in one of these comprehensive audits that we do from time to time on importers and it shows when you total all these together, it comes to the \$309,996 which I alluded to earlier.

The next four pages actually shows the actual Customs entry form, and you can see how this is a correlation, the ones that are in bold print on page 2 of your handout are actually the ones that are taking place on this particular transaction.

It just shows how we actually relate the documents back into the total summary. Then we have here a copy of the income tax form which shows in highlight on line 2 the declared value for cost of goods sold, which was significantly greater than the \$309,000 which had been declared for Customs value.

The next page of that handout shows you the total compilation of the imported value that was declared for Internal Revenue purposes of \$1.4 million, once again, comparing that to the \$380 some thousand, and you will notice that since the Internal Revenue, the actual income tax form shows \$1.8 million, our total, when we did the audit showed only \$1.4 million for import-related products.

The actual difference between the \$1.4 and \$1.8 million which is shown on the very last page, next to the last page of this handout, the rest of it was domestic product, so it wasn't directly related to the import transaction.

The final page of this particular handout shows—what I showed you is a snapshot for one calendar year. We did this audit over a 4-year period and the total duty collected was significant. It resulted in over \$780,000 of additional duties collected over a 4-year period.

Mr. Chairman, I have gone into some greater detail on the first example in that illustration, that handout. I am going to conclude my statement at this point.

We would be more than happy, either myself or any of the people with me, to go into greater detail on any of the examples that are set forth or be happy to respond to any questions you may have, either on the examples or my testimony or any other issue.

I thank you very much, Mr. Chairman.

[The prepared statement follows:]

STATEMENT
OF
GEORGE WEISE
COMMISSIONER OF CUSTOMS
BEFORE THE
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON OVERSIGHT
JUNE 17, 1993

Mr. Chairman and members of the Oversight Subcommittee, it is indeed a pleasure to make my first appearance in the House of Representatives before the Subcommittee on Oversight of the Committee on Ways and Means. As you know, Mr. Chairman, I have spent the last nine years serving this great Committee, and I for one greatly appreciate the significant contributions that this Subcommittee has made over the last several years to improve the overall operations of the U.S. Customs Service.

Although, there has been a tendency in the Customs Service over the years to be overly defensive about constructive suggestions from outside of the Agency, most within Customs would admit that we are a better organization today because of the fine work of the Subcommittee. I want you to know, Mr. Chairman, that as long as I am Commissioner, the Customs Service will work constructively with you and this Subcommittee to improve our operations. My goal, as is yours, is to make the Customs Service the best that it can possibly be.

Today, I have come to describe the Customs Regulatory Audit Program and how Customs determines the Customs value of imported goods. I will also provide case studies in using tax information to assist in determining correct values of imports. Valuation of merchandise is complex and is becoming increasingly important for Customs audits of multinational corporate firms as the number of such firms increase and they have become a predominate force in the international marketplace.

Before reviewing the current valuation situation, I believe it would be useful to place the problem within the context of our commercial processing system. When imported goods arrive at our airports, seaports or land border ports, Customs receives descriptive information about the goods from the importer or his agent. This data, usually submitted electronically, is processed through our Automated Commercial System to decide which merchandise must be examined or which documents must be reviewed. Customs inspectors examine about 8% of all shipments entering the U.S. to determine if the goods are admissible.

The next phase begins ten days later when the importer submits a full declaration of the tariff classification, appropriate duty rate, the value of the goods, and the duty amount. The payment is also a part of this formal transaction. Customs import specialists typically review these declarations to ensure accuracy. The Customs Modernization bill, which I urge you to enact, will place greater responsibility on the importer for submitting accurate electronic information, including classification and value information.

Determining the appropriate value and its related rate of duty is the issue we are discussing today. The methodology for determining imported value, the data to be used, and the procedural rules are spelled out in international agreements, particularly the Customs Valuation Code of the General Agreement on Tariffs and Trade known as GATT. As stipulated by the agreement, the Customs value is usually based on the price actually paid by the importer. This method of appraising the value of imported goods is commonly known as the "transaction value." It is used for most imported merchandise regardless of whether related parties are involved in the transaction; however, the circumstances of related party transactions must be tested to establish the acceptability of "transaction value." If it is determined that the business relationship affected the price, then Customs must follow a set progression of rules to establish the correct value.

These are the rules that our 1250 Customs import specialists are responsible for evaluating when reviewing information supplied by importers. In practice, import specialists review

the submitted entry for accuracy, and, if no problems are identified, the transaction is accepted and finalized by Customs, or "liquidated" in Customs terminology.

Entries are automatically liquidated within one year, except when suspended or extended by Customs when additional information is necessary legally required. If Customs amends the entry and if additional duty is required, the importer has a right to "protest." During the protest period the importer has the opportunity to substantiate the validity of the submitted information. If the protest is ultimately denied by Customs, the importer still has the right to seek judicial review in The Court of International Trade.

The appraised value is the key element in determining the duty for these transactions. This can become complicated when the transactions occur within multinational corporations. These transfer prices are an important concern for both Customs and the IRS in determining duties, user fees, and taxes. Customs has intensified its review of these transactions to determine if accurate values are being reported. Congress has recognized that some companies have devised means of structuring their transactions so as to avoid the payment of duties and taxes. As a result, Congress enacted section 1059(a) of the IRS code to close this loophole. We realize that this Subcommittee and IRS have been examining this issue since your hearing held in July, 1990. It is an area in which, I believe the Customs Service and IRS have common concerns which will be evident in the examples I will present today.

One common thread in these examples is that tax information voluntarily supplied by companies we audited, have proved invaluable in analyzing the accuracy of the value claims for imported goods. This tax information has also been critical in determining the acceptability of related party transaction values under the GATT Valuation Code. It should also be noted that Customs audits have uncovered information which has proven helpful to the IRS in determining tax liabilities.

In recognition of the problems being uncovered, Customs established a special task force almost two years ago to reinvigorate our valuation program. Upgraded training was implemented for all Customs personnel working with value related issues. The task force itself has evolved into a pilot National Customs Value Center, responsible for setting our policies and procedures for value related issues. The Value Center will operate in conjunction with our import specialists, regulatory auditors, and other Customs functional groups.

A critical component of the Customs Value initiative is the Regulatory Audit Program. Established in 1974, it has grown to approximately 360 personnel stationed in 26 regional and branch offices. The auditors conduct approximately 600 audits a year of all types. These include national audits, fraud audits and audits for compliance, user fees, and special trade preference programs such as the Canadian Free Trade Agreement. In 1992, Regulatory Audit identified approximately \$167 million in recommended duty recoveries and penalties.

The national audits, which review all aspects of an importer's transactions, employ substantial Customs auditor time and have produced multi-million dollar returns to the government. For example, the two largest national audits returned \$16 million and \$21 million. Audits are selected and prioritized by highest potential revenue return. Many of these audits are based on referrals from other Customs functional areas, such as import specialists and inspectors. However, because of its many responsibilities, the Regulatory Audit Program can conduct only a limited number of the resource intensive audits. It has been a Customs long-range goal to audit every major importer every five years, but we are not operating on a 25 year cycle. I believe the audit program is a vital piece of our Trade Enforcement Strategy and I will continue to emphasize its priority.

The problems confronting regulatory auditors are primarily centered around information access. We believe the Customs Modernization Act will alleviate most of the major problems. However, we still face the problem of foreign records access

which is a problem we share with the IRS. We also do not have access under the internal revenue laws to information companies prepare for the IRS even though such data would prove invaluable for Customs audits. Undoubtedly, we could productively use many of the same records and cost information.

While the laws and regulations of the IRS and Customs require different audit approaches and analysis of data, both agencies need similar information. The extent to which Customs has routine and legal access to a company's tax information will facilitate effective Customs audits. This will contribute to the reduction of the Federal deficit and improve U.S. industries competitiveness.

In response to the Subcommittee's request, I am presenting examples of audits that, I believe, will be of interest. Because of the business confidentiality and ongoing court cases, company identity is concealed. However, you will note the areas of overlap with IRS. We believe information sharing would be beneficial to both agencies. In these example cases, the tax information was voluntarily supplied by the company.

The examples of audit cases I will present are as follows:

In the first case, Customs reviewed and tabulated the total amount paid for imported goods as declared on the importer's Customs entries. To corroborate this information, Customs requested and received voluntarily supplied tax returns from the importer. Based on the tax return and substantiating records, Customs determined the importer has undervalued its imports by almost \$3 million and underpaid duties and taxes by about \$800,000.

In another case, the importer claimed to have no direct relationship with the foreign exporter, a maquiladora in Mexico. The importer stated that he only facilitated the assembly of goods for U.S. wholesalers and he stated on the Customs entry documents that there was no relationship which affected the declared values. Upon reviewing the importer's personal tax return, it was learned that his only income was from the Mexican maquiladora. This triggered further audit which revealed the importer's direct involvement in undervaluing the shipments by almost \$6 million and preparing invalid claims resulting in over \$1.5 million in duties.

The third case, disclosed what was originally thought to be an undervaluation of Customs declarations but which turned out to be a false deduction on the importer's tax claim. The Customs audit revealed a related-party transaction which prompted a request to the importer's tax return, voluntarily supplied. The Customs auditors found \$1.4 million in commissions which proved to be falsely constructed. The Customs auditors discovered that these false business expenses were claimed as tax deductions. This case was referred to the Internal Revenue Service (IRS).

In the fourth instance, the importer provided invoices to Customs that totalled \$28 million for goods imported over a two year period. During the course of the Customs audit, the importer voluntarily provided the tax returns in an attempt to validate certain claims to Customs. A full review of those tax returns disclosed claims to the IRS for cost of goods sold that totalled \$119 million. The discrepancy exceeded \$90 million. This case was again referred to the IRS.

Mr. FORD. I would like to ask the committee to—and Mr. Weise, the handouts that you have submitted to the committee, that we make it a part of the record, without any objection.

[The handout follows:]

HANDOUT

FOREIGN PURCHASES
FY 1989

DECLARED TO CUSTOMS	DECLARED TO IRS	UNDECLARED TO CUSTOMS	DUTY PERCENT	UNPAID DUTY
\$309,996	\$1,411,896	\$1,101,902	X 27.5%	\$303,023.05

FY 1989 CUSTOMS ENTRIES

ENTRY DATE	ENTERED VALUE
02/13/89	\$20,783.00
02/14/89	\$13,962.00
03/16/89	\$12,213.00
03/28/89	\$2,127.00
04/25/89	\$6,981.00
04/28/89	\$3,960.00
05/17/89	\$198.00
05/23/89	\$120.00
06/02/89	\$4,200.00
06/02/89	\$1,440.00
06/06/89	\$1,440.00
06/09/89	\$3,373.00
06/27/89	\$33,632.00
07/06/89	\$225.00
07/11/89	\$4,448.00
07/10/89	\$38,119.00
07/24/89	\$33,429.00
08/02/89	
08/02/89	
08/02/89	\$237.00
08/04/89	\$3,290.00
08/17/89	\$32,504.00
09/08/89	\$3,209.00
09/08/89	\$839.00
09/08/89	\$720.00
09/11/89	\$43,797.00
10/04/89	\$7,829.00
10/04/89	\$871.00
10/10/89	\$5,705.00
11/03/89	\$80.00
11/13/89	\$2,437.00
11/13/89	\$2,437.00
12/08/89	\$527.00
12/14/89	\$700.00
12/14/89	\$7,231.00
01/02/90	\$1,007.00
01/17/90	\$15,926.00
TOTALS	<u>\$309,996.00</u>

UNITED STATES CUSTOMS FORM 3462		1. Entry Summary No.		2. Entry Summary No.	
3. U.S. Port of Unloading		4. Entry Date		5. Entry Date	
6. U.S. Port of Unloading		7. Bond Type Code		8. Bond Type Code	
9. U.S. Port of Unloading		10. Country of Origin		11. Country of Origin	
12. U.S. Port of Unloading		13. Country of Origin		14. Country of Origin	
15. U.S. Port of Unloading		16. Country of Origin		17. Country of Origin	
18. U.S. Port of Unloading		19. Country of Origin		20. Country of Origin	
21. U.S. Port of Unloading		22. Country of Origin		23. Country of Origin	
24. U.S. Port of Unloading		25. Country of Origin		26. Country of Origin	
27. U.S. Port of Unloading		28. Country of Origin		29. Country of Origin	
30. U.S. Port of Unloading		31. Country of Origin		32. Country of Origin	
33. U.S. Port of Unloading		34. Country of Origin		35. Country of Origin	
36. U.S. Port of Unloading		37. Country of Origin		38. Country of Origin	
39. U.S. Port of Unloading		40. Country of Origin		41. Country of Origin	
42. U.S. Port of Unloading		43. Country of Origin		44. Country of Origin	
45. U.S. Port of Unloading		46. Country of Origin		47. Country of Origin	
48. U.S. Port of Unloading		49. Country of Origin		50. Country of Origin	
51. U.S. Port of Unloading		52. Country of Origin		53. Country of Origin	
54. U.S. Port of Unloading		55. Country of Origin		56. Country of Origin	
57. U.S. Port of Unloading		58. Country of Origin		59. Country of Origin	
60. U.S. Port of Unloading		61. Country of Origin		62. Country of Origin	
63. U.S. Port of Unloading		64. Country of Origin		65. Country of Origin	
66. U.S. Port of Unloading		67. Country of Origin		68. Country of Origin	
69. U.S. Port of Unloading		70. Country of Origin		71. Country of Origin	
72. U.S. Port of Unloading		73. Country of Origin		74. Country of Origin	
75. U.S. Port of Unloading		76. Country of Origin		77. Country of Origin	
78. U.S. Port of Unloading		79. Country of Origin		80. Country of Origin	
81. U.S. Port of Unloading		82. Country of Origin		83. Country of Origin	
84. U.S. Port of Unloading		85. Country of Origin		86. Country of Origin	
87. U.S. Port of Unloading		88. Country of Origin		89. Country of Origin	
90. U.S. Port of Unloading		91. Country of Origin		92. Country of Origin	
93. U.S. Port of Unloading		94. Country of Origin		95. Country of Origin	
96. U.S. Port of Unloading		97. Country of Origin		98. Country of Origin	
99. U.S. Port of Unloading		100. Country of Origin		101. Country of Origin	
102. U.S. Port of Unloading		103. Country of Origin		104. Country of Origin	
105. U.S. Port of Unloading		106. Country of Origin		107. Country of Origin	
108. U.S. Port of Unloading		109. Country of Origin		110. Country of Origin	
111. U.S. Port of Unloading		112. Country of Origin		113. Country of Origin	
114. U.S. Port of Unloading		115. Country of Origin		116. Country of Origin	
117. U.S. Port of Unloading		118. Country of Origin		119. Country of Origin	
120. U.S. Port of Unloading		121. Country of Origin		122. Country of Origin	
123. U.S. Port of Unloading		124. Country of Origin		125. Country of Origin	
126. U.S. Port of Unloading		127. Country of Origin		128. Country of Origin	
129. U.S. Port of Unloading		130. Country of Origin		131. Country of Origin	
132. U.S. Port of Unloading		133. Country of Origin		134. Country of Origin	
135. U.S. Port of Unloading		136. Country of Origin		137. Country of Origin	
138. U.S. Port of Unloading		139. Country of Origin		140. Country of Origin	
141. U.S. Port of Unloading		142. Country of Origin		143. Country of Origin	
144. U.S. Port of Unloading		145. Country of Origin		146. Country of Origin	
147. U.S. Port of Unloading		148. Country of Origin		149. Country of Origin	
150. U.S. Port of Unloading		151. Country of Origin		152. Country of Origin	
153. U.S. Port of Unloading		154. Country of Origin		155. Country of Origin	
156. U.S. Port of Unloading		157. Country of Origin		158. Country of Origin	
159. U.S. Port of Unloading		160. Country of Origin		161. Country of Origin	
162. U.S. Port of Unloading		163. Country of Origin		164. Country of Origin	
165. U.S. Port of Unloading		166. Country of Origin		167. Country of Origin	
168. U.S. Port of Unloading		169. Country of Origin		170. Country of Origin	
171. U.S. Port of Unloading		172. Country of Origin		173. Country of Origin	
174. U.S. Port of Unloading		175. Country of Origin		176. Country of Origin	
177. U.S. Port of Unloading		178. Country of Origin		179. Country of Origin	
180. U.S. Port of Unloading		181. Country of Origin		182. Country of Origin	
183. U.S. Port of Unloading		184. Country of Origin		185. Country of Origin	
186. U.S. Port of Unloading		187. Country of Origin		188. Country of Origin	
189. U.S. Port of Unloading		190. Country of Origin		191. Country of Origin	
192. U.S. Port of Unloading		193. Country of Origin		194. Country of Origin	
195. U.S. Port of Unloading		196. Country of Origin		197. Country of Origin	
198. U.S. Port of Unloading		199. Country of Origin		200. Country of Origin	
201. U.S. Port of Unloading		202. Country of Origin		203. Country of Origin	
204. U.S. Port of Unloading		205. Country of Origin		206. Country of Origin	
207. U.S. Port of Unloading		208. Country of Origin		209. Country of Origin	
210. U.S. Port of Unloading		211. Country			

DEPARTMENT OF THE TREASURY
UNITED STATES CUSTOMS SERVICE

ENTRY SUMMARY

1. Entry Date 6/27/89		2. Port Code [REDACTED]	
3. Entry No. [REDACTED]		4. Entry Type Code [REDACTED]	
5. Ultimate Consignee Name and Address SAME		6. Consignee No. [REDACTED]	
7. Importer of Record Name and Address [REDACTED]		8. Importer of Record No. [REDACTED]	
9. Exporting Country TM		10. Export Date 6/28/89	
11. Country of Origin TM		12. Shipping Documents SC	
13. LT No. [REDACTED]		14. LT Date [REDACTED]	
15. U.S. or APO No. [REDACTED]		16. Mode of Transportation TO	
17. Importing Country [REDACTED]		18. Foreign Port [REDACTED]	
19. U.S. Port of Unloading [REDACTED]		20. Import Date 6/28/89	
21. Manufacturer LDC SEE BELOW		22. Reference No. [REDACTED]	
23. Location of Goods/REG. No. [REDACTED]			

Line No.	NO.	T.S.U.A. No. E. AOA CVO Code No.	Description of Merchandise F. Trade Name G. Marking City	Non-Quantities in T.S.U.A. Units	H. Estimated Value I. CHS J. Autoduty	K. T.S.U.A. Rate L. ADVALOR From U.S.C. Rate M. Rate No.	N. Total (incl. U.S. Tax) O. Dollars P. Cents	
004			SWEATERS, KN, MAN-NO, KN, CR, NR/S 6110-30-30301 THUNCEINT 178AN C949-401-000 CVO MERCHANDISE PROCESSING FEE HARBOR MAINTENANCE FEE	18 002 18 002	CAT # 638 197 18 002	34-2000000 1-230000 VETHL 1137 175 048	67-37 2-42 -33 -08	
005			SWEATERS, KN, MAN-NO, KN, CR, NR/S 6110-30-30301 THUNCEINT 178AN C949-401-000 CVO MERCHANDISE PROCESSING FEE HARBOR MAINTENANCE FEE I-V E-V	18 002 18 002	CAT # 638 197 18 002	34-2000000 1-230000 VETHL 1137 175 048	102-00 3-64 -91 -12	

BROKER'S COPY

1. Declaration of Importer of Record (Owner or Purchaser) or Authorized Agent I declare that I am the <input type="checkbox"/> Importer of Record and that the actual owner, purchaser, or consignee for customs purposes is the person above. Further, I declare that the merchandise was obtained pursuant to a purchase or agreement to purchase and that the price set forth in the invoice is true. I also declare that the statements in the documents herein filed fully disclose to the best of my knowledge and belief the true price, value, quantity, relative, drawbacks, fees, commissions, and royalties and are true and correct, and that all goods or services provided to the owner of the merchandise either free or at a reduced cost are fully disclosed, and that no other information necessary to determine the correct classification of the merchandise is being withheld.		2. U.S. CUSTOMS USE A. LDC Code B. Assessed Duty C. Assessed Tax D. Assessed E. Duty		3. TOTALS F. Duty G. Tax H. Total	
--	--	---	--	--	--

DEPARTMENT OF THE TREASURY
 UNITED STATES CUSTOMS SERVICE

ENTRY SUMMARY

1. Entry Date 1/29/89		2. Entry Type Code ADJUV		3. Entry Status and Date	
4. Bond No.		7. Bond Type Code		8. Broker/Importer File No.	
5. Ultimate Consignee Name and Address SAME		10. Consignee No.		11. Importer of Record Name and Address	
12. Importing Country TH		13. Country of Origin TH		14. Import Date 1/28/89	
15. U.S. Port of Unloading		16. Place of Transportation		17. Manufacturer SEE BELOW	
18. Importing Country		19. Foreign Port of Unloading		20. Location of Goods/REG. No.	
21. U.S. Port of Unloading		22. Import Date 1/28/89		23. Reference No.	

Line No.	T.S.M.S.A. No. E	T.S.M.S.A. No. E	Description of Merchandise	Net Quantity in T.S.M.S.A. Units	35. A. Estimated Value C	36. A. T.S.M.S.A. No. E ADJUV Code U.S.C. Rate D. Value No.	Date and U.S. Tax Deduction	Credits
			INVOICE 2					
006			SKIRT/OIV, CAT, OTHER, GIRL'S 6204-92-2002 THUNG LUY BIEAN C544-401-000 CVO MERCHANDISE PROCESSING FEE HARBOR MAINTENANCE FEE E-V= 178 E-V= 042 134.00	50 002 118 KG	CAT # 342 839 C85	8-7000002 1-230002 V9TH111413 -178 -042		72.99 10.32 1.43 .34
			INVOICE 3					
007			DRESSES, COTTON, OTHER, GIRL'S 6204-92-2002 THUNG LUY BIEAN C544-401-000 CVO MERCHANDISE PROCESSING FEE HARBOR MAINTENANCE FEE E-V= 178 E-V= 042	40 50 002 118 KG	CAT # 336 728 C85	12-6000002 1-230002 V9TH111413 -178 -042		90.72 8.86 1.43 .34
BROKER'S COPY								
---ENTRY CONTINUED---								

Declaration of Importer of Record (Owner or Purchaser) or Authorized Agent

I declare that I am the
☐ Importer of Record and that the actual
 owner, purchaser, or consignee for
 business purposes is to declare above.
 OR
☐ I am not the owner, purchaser, or consignee for
 business purposes and I am not obtaining payment for a purchase or
 agreement to purchase and the amount
 in this invoice or its value or price are true to the
 best of my knowledge and belief.

I also declare that the statements in the documents herein fully disclose to the best of my
 knowledge and belief the true price, value, quantity, status, description, date, destination,
 and origin and are true and correct, and that all goods or services provided to the seller of the
 merchandise either free or in a reduced and are fully disclosed. I will immediately notify the
 appropriate customs officer any information regarding a different value or price.

Imported by: [Signature]
 The right to dispose of the goods is reserved.
 Information on Importation:

U.S. CUSTOMS USE

TOTALS

A. Line Code	B. Assessed Duty	C. Duty
C. Assessed Tax	D. [Signature]	E. [Signature]

DEPARTMENT OF THE TREASURY
UNITED STATES CUSTOMS SERVICE

ENTRY SUMMARY

1. Entry Type Code		2. Entry Summary Date	
3. Entry Date 8/29/69	4. Port Code		
5. Bond No.	6. Bond Type Code	7. Bond No./Type, Date, etc.	
8. Ultimate Consignee Name and Address SAME		9. Consignee No.	
10. Consignee Name and Address		11. Importer of Record Name and Address	
12. Exporting Country TH		13. Export Date 8/28/69	
14. Country of Origin TH		15. Importing Description	
16. LT No.		17. LT Date	
18. Mode of Transportation TO		19. Manufacturer USE BELOW	
20. Importing Carrier		21. Location of Goods/B.O. No.	
22. U.S. Port of Unloading		23. Reference No.	

24. Description of Merchandise				25. T.S.U.S.A. Item		26. T.S.U.S.A. Item		27. Duty with U.S. 1st	
Line No.	28. T.S.U.S.A. No.	29. Gross Weight	30. Net Weight	31. T.S.U.S.A. Item	32. T.S.U.S.A. Item	33. T.S.U.S.A. Item	34. T.S.U.S.A. Item	35. T.S.U.S.A. Item	36. T.S.U.S.A. Item
	L.V.	120.00	120.00	U.S.O.					
	E.V.								

BROKER'S COPY

37. Declaration of Importer of Record (Owner or Purchaser or Authorized Agent)		U.S. CUSTOMS USE		TOTALS	
I declare that I am the <input type="checkbox"/> Importer of record and that the actual owner, purchaser, or consignee for customs purposes is as shown above. Further declare that the merchandise was obtained pursuant to a purchase or agreement to purchase and that the price set forth in the invoice is true. OR <input type="checkbox"/> Owner or purchaser or agent of owner. I own and obtained possession to a purchase or agreement to purchase and the merchandise is the merchandise as to value or price as set to the best of my knowledge and belief.		A. Lic. Code B. Assessed Duty C. Assessed Tax D. Estimated Duty E. Estimated Tax	38. Rule 39. Tax 40. Duty 41. Tax		

Noted: Provided by Department of Customs, Part of 1968. This information is for informational purposes only. The U.S. Customs Service is not responsible for the accuracy of the information provided. The U.S. Customs Service is not responsible for the accuracy of the information provided.

048 1948-01-27

For calendar year 1989 or tax year beginning 2/1 1989, ending 1/31 1990
 ▶ Instructions are separate. See page 1 for Passover & Reduction Act Notice.

1989

Check if a— ☒ *20.2*

☐ Consolidated return

☐ Personal holding co.

☒ Personal service corp. (as defined in Temp. Regs. sec. 1.441-4T—e)

U.S. INS. ***** CAR-RT-SORT*****CR26

1. Employer Identification Number

8 Check applicable boxes: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Change in address

911601

1	Gross receipts or sales	1c	211788
2	Cost of goods sold and/or operations (Schedule A, line 7)	2	184924
3	Gross profit (line 1c less line 2)	3	262764
4	Dividends (Schedule C, line 19)	4	
5	Interest	5	2622
6	Gross rents	6	
7	Gross royalties	7	
8	Capital gain net income (attach Schedule D (Form 1120))	8	
9	Net gain or (loss) from Form 4797, Part II, line 18 (attach Form 4797)	9	
10	Other income (see instructions—attach schedule)	10	
11	Total income—Add lines 3 through 10	11	265386
12	Compensation of officers (Schedule E, line 4)	12	64800
13a	Salaries and wages	13a	24185
14	Repairs	14	24185
15	Bad debts	15	
16	Rents	16	46520
17	Taxes	17	13186
18	Interest	18	2882
19	Contributions (see instructions for 10% limitation)	19	
20	Depreciation (attach Form 4562)	20	4114
21	Less depreciation claimed on Schedule A and elsewhere on return	21a	
22	Depreciation	22	
23	Advertising	23	520
24	Pension, profit-sharing, etc., plans	24	
25	Employee benefit programs	25	
26	Other deductions (attach schedule)	26	52100
27	Total deductions—Add lines 12 through 26	27	220329
28	Taxable income before net operating loss deduction and special deductions (line 11 less line 27)	28	45057
29	Less: a Net operating loss deduction (see instructions)	29a	
30	b Special deductions (Schedule C, line 20)	29b	
31	Taxable income—Line 28 less line 29c	31	45057
32	Total tax (Schedule J, line 10)	32	6759
33	Payments a 1989 employment credit to 1989	33a	
34	b 1989 estimated tax payments	33b	12000
35	c Less 1989 refund applied for on Form 4406	33c	
36	d Tax deposited with Form 7004	33d	
37	e Credit from regulated investment companies (attach Form 2439)	33e	
38	f Credit for Federal tax on fuels (attach Form 4136)	33f	
39	g Enter any penalty for underpayment of estimated tax—Check <input type="checkbox"/> If Form 2220 is attached	33g	12000
40	h Tax due—If the total of lines 31 and 33 is larger than line 32h, enter amount owed	33h	
41	Overpayment—If line 32h is larger than the total of lines 31 and 33, enter amount overpaid	34	
42	Enter amount of line 35 you want credited to 1990 estimated tax <input type="checkbox"/> Refunded <input type="checkbox"/>	35	5241

Under penalty of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Sign Here: [Redacted Signature] Date: Feb. 6. 1961 Title: MANAGER

Print Preparer's Use Only	Preparer's signature	Date	Check if self-employed <input type="checkbox"/>	Preparer's social security number
	Firm's name (or yours if self-employed) per address			

FY 1989 FOREIGN PURCHASES

<u>DATE</u>	<u>AMOUNT</u>
06/16/89	\$10,000.00
03/01/89	\$15,552.50
04/14/89	\$24,545.00
04/25/89	\$50,000.00
05/22/89	\$20,783.15
05/26/89	\$19,065.00
06/13/89	\$13,961.74
07/12/89	\$18,359.19
08/17/89	\$19,842.00
09/25/89	\$19,173.87
10/13/89	\$46,000.00
10/25/89	\$74,000.00
11/02/89	\$30,000.00
11/28/89	\$35,000.00
01/31/90	\$20,000.00
02/22/89	\$12,195.33
03/01/89	\$4,477.50
03/14/89	\$9,782.00
04/04/89	\$12,198.41
05/26/89	\$4,170.00
04/24/89	\$1,396.66
07/18/89	\$2,187.31
10/30/89	\$4,767.60
10/30/89	\$4,874.64
10/30/89	\$5,748.84
10/30/89	\$33,632.06
10/30/89	\$14,405.24
11/07/89	\$38,119.00
11/15/89	\$33,428.00
12/04/89	\$70,030.00
12/14/89	\$32,616.64
12/29/89	\$43,856.87
12/29/89	\$50,030.00
01/22/90	\$66,030.00
01/31/90	\$440,014.94
01/31/90	\$69,853.29

	\$1,411,896.78

FOREIGN PURCHASES	-	\$1,411,896
OTHER DOMESTIC	-	\$437,128
		<hr/>
COST OF GOODS SOLD ON IRS FORM 1120		\$1,849,024

TIME PERIOD: FEBRUARY 1987 TO JANUARY 1991

\$3,751,369
892,726

IRS Foreign Purchases
Customs Value (Same Purchases)

\$2,858,643

Difference

\$2,858,643 x 27.5% (Duty Rate) = \$786,126 Unpaid Duty

Case #1

The importer in this case has been importing children's clothing and occasionally adult wearing apparel, since 1984. It purchases some of its merchandise domestically but the vast majority come from suppliers located in Taiwan and Thailand. The importer sells primarily to wholesalers at a mark up of 300 to 500 percent depending on the merchandise and the buyer. The importer's gross receipts were approximately \$2 million per year.

Customs audited the importer's business activity covering a four year period from February 1987 to January 1991. During this period, the importer filed 89 entries with Customs at one district claiming a total value of \$892,726. However, the Customs audit disclosed that the importer had booked \$3,751,369 for costs associated with foreign purchases during the same period, a difference of \$2,858,643. Given that the average duty rate of 27.5 percent based on the type of merchandise imported during this period, the importer underpaid duty during that period by \$786,126. The importer also underpaid merchandise processing fees by \$5,006, and harbor maintenance fees by \$1,096 for a total underpayments of duties and fees of \$792,228.

In its fiscal year February 1, 1989 to January 31, 1990, for example, the importer filed 30 entries with Customs for merchandise purchased from five overseas suppliers. The total value claimed for all 30 entries was \$309,996. Each entry had attached an invoice supporting the value claimed for that entry. However, for that same year, the importer claimed \$1,849,024 for costs of goods sold on its income tax return. In reconstructing the importer's books and records used to support that costs of goods sold figure, Customs auditors established that the costs of foreign purchases totaled \$1,411,896. Essentially, the auditors examined all of the importer's payments against the purchases account for the company's fiscal year and identified those payments made to foreign entities. During this process, the auditors also found accounting charges to the purchases account that the importer could not explain or support as being domestic; therefore, the accounting charges were treated as foreign purchases by the auditors.

The \$1,411,896 is the total of 35 payments (via checks, letters of credit, wire transfers, and one cash disbursement) and two accounting charges posted to the purchases account. Generally, the importer maintained no records that would enable Customs to determine which of those payments covered which purchases or to determine which purchases were later shipped as a part of any one of the 30 entries filed by the importer. It is also not clear how the amounts on the invoices presented with the entry documents,

which only add up to a total of \$309,996, were derived. It would appear that the invoices were intentionally understated due to the high duty rates applicable to the imported merchandise.

An additional beneficial outcome of this audit is that the Customs auditors were able to determine that the costs of goods sold claimed by the importer for two of the years covered by the audit were erroneously overstated as a result of recording \$135,819 of (\$40,025 and \$95,794 for FY 1988 and 1989 respectively) purchases twice. This discovery will result in the importer paying additional federal and state income taxes for those two years.

Customs also intends to levy penalties against this importer in the amount of \$3,163,740 for false statements made on a Customs documents regarding costs associated with imports.

FY 1989 ENTRIES

Entry Date	Number	Entered Value	Duty	Supplier	Invoice Number	Amount
02/13/89		\$20,783.00	\$6,145.74		881230	\$20,783.15 LC
02/14/89		\$13,962.00	\$3,660.92		890128	\$13,961.00 LC
03/16/89		\$12,213.00	\$3,170.36		890225	\$12,213.00
03/28/89		\$2,127.00	\$361.59		890127	\$2,127.00
04/25/89		\$6,981.00	\$2,238.77		890419	\$6,981.42
04/28/89		\$3,960.00	\$673.20		01/89	\$3,960.00 LC
05/17/89		\$198.00	\$33.66		005/89	\$198.00
05/23/89		\$120.00	\$20.40		004/89	\$120.00
06/02/89		\$4,200.00	\$714.00		CDC-003	\$4,200.00 LC
06/02/89		\$1,440.00	\$125.28		MBK-CDC89/08	\$1,440.00 LC
06/06/89		\$1,440.00	\$123.84		CDC 004/89	\$1,440.00 LC
06/09/89		\$3,373.00	\$1,025.39		890601	\$3,373.33
06/27/89		\$33,632.00	\$10,262.69		780917	\$33,632.06 LC
07/06/89		\$225.00	\$38.25		003/89	\$225.00
07/11/89		\$4,448.00	\$394.72		780950	\$4,448.00
07/10/89		\$38,119.00	\$12,122.88		780993	\$38,119.00 LC
07/24/89		\$33,423.00	\$9,292.22		781089	\$33,428.92 LC
08/02/89					003/89	\$47.73
08/02/89					004/89	\$82.09
08/02/89		\$237.00	\$31.16		01/89	\$61.17
08/02/89					002/89	\$45.72
08/04/89		\$3,290.00	\$387.00		890731	\$3,289.75
08/17/89		\$32,504.00	\$8,771.00		781180	\$32,509.78 LC
09/08/89		\$3,209.00			IG 247/89	\$3,208.80 LC
09/08/89		\$839.00	\$1,260.37		IG 249/89	\$838.80 LC
09/08/89		\$720.00			IG 250/89	\$720.00 LC
09/11/89		\$43,797.00	\$11,968.29		780817	\$43,796.87 LC
10/04/89		\$7,829.00	\$1,385.73		IG 372/89(A)	\$7,829.40 LC
10/04/89		\$871.00	\$154.17		IG 372/89(B)	\$870.84 LC
10/10/89		\$5,705.00	\$969.85		TC 8907	\$5,705.00 LC
11/03/89		\$80.00	\$6.88		8910 (A)	\$80.00
11/13/89		\$2,437.00	\$687.93		IG 248/89	\$2,437.32 LC
11/13/89		\$2,437.00	\$414.29		IG 248/89	\$2,437.32 LC
12/08/89		\$527.00	\$89.59		GC 1204	\$526.80
12/14/89		\$700.00	\$0.00		TC8909	\$700.00 T/T
12/14/89		\$7,231.00	\$1,229.27		TC8908	\$7,231.00 T/T
01/02/90		\$1,007.00	\$214.07		GC1222	\$1,007.00
01/17/90		\$15,926.00	\$4,237.78		781948	\$15,925.50
Totals		\$309,996.00	\$83,411.29			\$309,994.77

FY 1989 FOREIGN PURCHASES

CHECK NO.	DATE	DESCRIPTION	AMOUNT	NOTE
NO #	06/16/89	CASH	\$10,000.00	
1165	03/01/89		\$15,552.50	
1169	04/14/89		\$24,345.00	
1171	04/25/89		\$50,000.00	
1173	05/22/89		\$20,783.15	
1174	05/26/89		\$19,065.00	
1177	06/13/89		\$13,961.74	
1178	06/14/89		\$42,000.00	
1181	07/12/89		\$18,359.19	
1187	08/17/89		\$19,842.00	
1197	09/25/89		\$19,173.87	
1201	10/13/89		\$46,000.00	
1202	10/25/89		\$74,000.00	
1204	11/02/89		\$30,000.00	
1210	11/28/89		\$35,000.00	
1223	01/31/90		\$20,000.00	
3587	02/22/89		\$12,195.33	L/C
3595	03/01/89		\$4,477.50	T/T
3619	03/14/89		\$9,782.00	L/C
3660	04/04/89		\$12,198.41	L/C
3669	05/26/89		\$4,170.00	L/C
3686	04/24/89		\$1,396.66	PURCHASE
3775	07/18/89		\$2,187.31	
3933	10/30/89		\$4,767.60	PURCHASE L/C
3934	10/30/89		\$4,874.64	PURCHASE L/C
3935	10/30/89		\$5,748.84	PURCHASE L/C
3936	10/30/89		\$33,632.06	PURCHASE L/C
3937	10/30/89		\$14,405.24	PURCHASE L/C
3949	11/07/89		\$38,119.00	L/C
3957	11/15/89		\$33,428.00	L/C
3993	12/04/89		\$70,030.00	
4003	12/14/89		\$32,616.64	L/C
4022	12/29/89		\$43,856.87	L/C
4023	12/29/89		\$50,030.00	
4066	01/22/90		\$66,030.00	
	01/31/90	ADJ. L/C BAL. TO TAX RETURN	\$440,014.94	
	01/31/90	TO REC'D DEBIT MEMO-CKG	\$69,853.29	
TOTAL			\$1,411,896.78	

Total posted \$165,647.83 (\$69,853.29 + \$95,794.54) duplicate posting for \$95,794.54 check #3933 (\$4,767.60), #3934 (\$4874.64), #3936 (\$33,632.06), #3937 (\$14,405.24), and #3949 (\$38,119) posted as \$38,115.

FBI 01/31/89 to 01/31/90

Acct/Number	Acct/Title	Account Balance
--Date--	Src Reference / Description	Curr. Amt.
03/20/89	CD4 3635	1,500.00 ✓
04/04/89	CD4 3659	858.00 ✓
04/04/89	CD4 3660	12,198.41 ✓
04/07/89	CD4 3662	3,267.50 ✓
04/14/89	CD4 1169	24,345.00 ✓
04/17/89	CD4 3682	5,000.00 ✓
04/24/89	CD4 3686	1,296.66 ✓
04/25/89	CD4 1171	50,000.00 ✓
05/08/89	CD4 1172	36,600.00 ✓
05/09/89	CD4 3703	1,600.00 ✓
05/09/89	CD4 3704	1,341.50 ✓
05/22/89	CD4 1173	20,783.15 ✓
05/26/89	CD4 3669	4,170.00 ✓
05/28/89	CD4 1174	19,065.00 ✓
05/31/89	CD4 3670	112.00 ✓
05/31/89	CD4 3712	6,000.00 ✓
06/13/89	CD4 1177	13,961.74 ✓
06/14/89	CD4 1178	42,000.00 ✓
06/22/89	CD4 1179	10,000.00 ✓
07/12/89	CD4 1181	18,359.19 ✓
07/18/89	CD4 3775	2,187.31 ✓
07/20/89	CD4 3794	612.00 ✓
08/03/89	CD4 1185	17,000.00 ✓
08/10/89	CD4 3811	3,300.00 ✓
08/14/89	CD4 3813	3,558.00 ✓
08/17/89	CD4 1187	19,842.00 ✓
08/20/89	CD4 3795	612.00 ✓
08/22/89	CD4 1188	8,000.00 ✓
08/25/89	CD4 3825	330.00 ✓
08/28/89	CD4 1189	15,000.00 ✓
09/07/89	CD4 1192	20,000.00 ✓
09/07/89	CD4 3846	166.00 ✓
09/11/89	CD4 1194	19,000.00 ✓
09/18/89	CD4 1195	70,000.00 ✓
09/22/89	CD4 1196	35,000.00 ✓
09/25/89	CD4 1197	19,173.87 ✓
09/27/89	CD4 3878	275.52 ✓
09/27/89	CD4 3879	229.44 ✓
09/29/89	CD4 3898	170.00 ✓
10/02/89	CD4 3899	850.00 ✓
10/13/89	CD4 1201	46,000.00 ✓
10/16/89	CD4 3909	4,551.00 ✓
10/16/89	CD4 3911	2,316.00 ✓
10/25/89	CD4 1202	74,000.00 ✓
10/28/89	CD4 3932	49.59 ✓
10/30/89	CD4 3933	4,767.60 ✓
10/30/89	CD4 3934	4,874.64 ✓
10/30/89	CD4 3935	5,748.84 ✓

UNITED STATES CUSTOMS SERVICE

1. Entry Date: 8/29/89		2. Entry Type Code: [REDACTED]		3. Entry Summary Description: [REDACTED]	
4. Bond No. [REDACTED]		5. Port Code: [REDACTED]		6. Breaker/Importer/Export No. [REDACTED]	
7. Bond Type Code: [REDACTED]		8. Country of Origin: TH		9. Export Date: 7/28/89	
10. Commodity No. [REDACTED]		11. Country of Origin: TH		12. Missing Documents: [REDACTED]	
13. U.S. Port of Unloading: [REDACTED]		14. Manufacturer: SEE BELOW		15. Reference No. [REDACTED]	
16. U.S. Port of Unloading: [REDACTED]		17. Import Date: 8/28/89		18. Description of Merchandise: [REDACTED]	

Line No.	T.S.U.S.A. No. B. ADA/CVD Case No.	Description of Merchandise	Gross Weight B. Market Qty	Net Quantity in T.S.U.S.A. Units	Entered Value E. DOLLARS C. Relationship	T.S.U.S.A. Rate B. ADA/CVD Rate C. U.S. Rate D. Visa No.	Duty and U.S. Tax	
							Dollars	Cents
001	TH 6109-20-20307	BOY SHIRTS, MMF, Q, NOT PT PLAYST CAT # 638	245	227 KG	2388	34.60000002	826.25	
		THUMCINTITTBAN			C65	1.23000000	29.37	
		C549-401-000 CVD				V9TH111547	4.06	
		MERCHANDISE PROCESSING FEE				.172	.96	
		HARBOR MAINTENANCE FEE				.042		
002	TH 6114-30-10100	GMS, KH/CR, MM-MOE FIE, TOPS, M/B CAT # 638	23	19 OGZ	225	30.00000001	68.40	
		THUMCINTITTBAN		22 KG	C6	1.23000000	2.80	
		C549-401-000 CVD				V9TH111547	.39	
		MERCHANDISE PROCESSING FEE				.172	.09	
		HARBOR MAINTENANCE FEE				.042		
003	TH 6109-20-20307	BYS, TK TP/SNG, MM-BL, YK, CAT # 638	10	9 OGZ	96	34.60000002	32.64	
		THUMCINTITTBAN		9 KG	C3	1.23000000	1.16	
		C549-401-000 CVD				V9TH111547	.16	
		MERCHANDISE PROCESSING FEE				.172	.04	
		HARBOR MAINTENANCE FEE				.042		
		BLCK 39 SUMMARY						
		COUNTERVAILING DUTY	013		58.64			
		MERCHANDISE PROCESSING FEE	499		8.10			
		HARBOR MAINTENANCE FEE	501		1.92			
		TOTAL			68.64			

DECLARATION OF IMPORTER OF RECORD (Owner or Purchaser) CONTINUED		U.S. CUSTOMS USE		TOTALS	
I declare that I am the <input type="checkbox"/> importer of record and that the actual owner, purchaser, or consignee for customs purposes is as shown above. I further declare that the merchandise was obtained pursuant to a purchase agreement to purchase and that the prices set forth in the invoice are true.		<input type="checkbox"/> I am the owner or purchaser or agent thereof. <input type="checkbox"/> I was not obtained pursuant to a purchase agreement to purchase and the statements in the invoice as to value or price are true to the best of my knowledge and belief.		A. List Code B. Ascertained Duty C. Ascertained Tax D. Ascertained Other E. Ascertained Total	
I also declare that the statements in the documents herein filed fully disclose to the best of my knowledge and belief the true prices, values, quantities, rebates, drawbacks, fees, commissions, and royalties are true and correct, and that all goods or services provided to the seller of the merchandise either free or at a reduced cost are fully disclosed. I will immediately furnish to the appropriate customs officer any information showing a different state of facts.		27. Duty: 1260.37 28. Tax: [REDACTED] 29. Other: [REDACTED] 30. Total: [REDACTED]		31. [REDACTED] 32. [REDACTED]	

Notice required by Paperwork Reduction Act of 1980. This information is required to be furnished by the importer/exporter to the U.S. Customs Service. Failure to furnish this information may result in the assessment of a civil penalty. The information is required to be furnished by the importer/exporter to the U.S. Customs Service. Failure to furnish this information may result in the assessment of a civil penalty.

DEPARTMENT OF THE TREASURY
UNITED STATES CUSTOMS SERVICE

ENTRY SUMMARY

1. Entry No. [REDACTED]		2. Entry Type Code [REDACTED]		3. Entry Summary Code [REDACTED]	
4. Entry Date 8/29/89		5. Port Code [REDACTED]		6. Bond No. [REDACTED]	
7. Bond Type Code [REDACTED]		8. Broker/Importer File No. [REDACTED]		9. Ultimate Consignee Name and Address SAME	
10. Consignee No. [REDACTED]		11. Importer of Record Name and Address [REDACTED]		12. [REDACTED]	
13. Exporting Country TH		14. Export Date 7/28/89		15. Country of Origin TH	
16. Missing Documents 52		17. LT. No. [REDACTED]		18. LT. Date [REDACTED]	
19. BL or AWE No. [REDACTED]		20. Mode of Transportation TC		21. Manufacturer LDC# SEE BELOW	
22. Reference No. [REDACTED]		23. Importing Carrier [REDACTED]		24. Foreign Port of Loading [REDACTED]	
25. U.S. Port of Unloading [REDACTED]		26. Import Date 8/28/89		27. Location of Goods/G.O. No. [REDACTED]	

Line No.	28. Description of Merchandise		29. Net Quantity in T.S.U.S.A. Units		30. Entered Value		31. T.S.U.S.A. Rate		32. Duty and L.R. Tax	
	A. T.S.U.S.A. No. B. ADA CVO Case No.	A. Trade Weight B. Manifest Qty	A. Net Quantity in T.S.U.S.A. Units	A. Entered Value B. CHGS C. Relationship	A. T.S.U.S.A. Rate B. ADA/CVO Rate C. U.R.C. Rate D. Vice No.	A. T.S.U.S.A. Rate B. ADA/CVO Rate C. U.R.C. Rate D. Vice No.	A. T.S.U.S.A. Rate B. ADA/CVO Rate C. U.R.C. Rate D. Vice No.	A. T.S.U.S.A. Rate B. ADA/CVO Rate C. U.R.C. Rate D. Vice No.	A. T.S.U.S.A. Rate B. ADA/CVO Rate C. U.R.C. Rate D. Vice No.	A. T.S.U.S.A. Rate B. ADA/CVO Rate C. U.R.C. Rate D. Vice No.
004	SWEATERS,OTH,MAN-HO,KM/CR,MN/B 6110-30-30501 THUMCINT1778AM C549-401-000 CVO	20	18 DOZ 18 KG	CAT # 638 197 CS	34.200000Z 1.23000Z V9TH111547 17% .04%	67.37 2.42 1.33 1.08				
005	SVS,T-1HT,MN FB,C TEX 6100-30-30501 C549-401-000 CVO	31	25 DOZ 29 KG	CAT # 638 300 CG	34.000000Z 1.23000Z V9TH111547 17% .04%	102.00 3.69 1.91 1.12				
	MERCHANDISE PROCESSING FEE HARBOR MAINTENANCE FEE I-V E-V									

DUPLICATED'S COPY

33. Declaration of Importer of Record (Owner or Purchaser) or Authorized Agent		U.S. CUSTOMS USE		TOTALS	
I declare that I am the <input type="checkbox"/> Importer of record and that the actual owner, purchaser, or consignee for customs purposes is as shown above. I further declare that the merchandise was obtained pursuant to a purchase or agreement to purchase and that the prices set forth in the invoice are true. OR <input type="checkbox"/> Owner or purchaser or agent thereof. was not obtained pursuant to a purchase or agreement to purchase and the statements in the invoice as to value or price are true to the best of my knowledge and belief.		A. Lvs. Code B. Ascertained Duty C. Ascertained Tax D. Ascertained Other E. Ascertained Total		34. Duty 35. Tax 36. Other 37. Code	

Notice required by Proxmire Act of 1988: This information is for the use of the U.S. Customs Service only. It is not to be released to the public. Importers/exporters are complying with U.S. Customs Service requirements. The right to know of duty, no release of information on imports. Your response is required.

DEPARTMENT OF THE TREASURY
UNITED STATES CUSTOMS SERVICE

ENTRY SUMMARY

1. Entry Date 8/29/89		2. Entry Code 100		3. Entry Summary Date 8/28/89	
4. Bond No.		5. Bond Type Code		6. Broker/Importer Fee No.	
7. Ultimate Consignee Name and Address SAME		8. Consignee No.		9. Importer of Record Name and Address	
10. State		11. Exporting Country TH		12. Export Date 8/28/89	
13. Country of Origin TH		14. Missing Documents		15. LT Date	
16. LT No.		17. Manufacturer SEE BELOW		18. Reference No.	
19. Mode of Transportation TR		20. Foreign Port of Loading		21. Location of Goods/G.O. No.	
22. U.S. Port of Unloading		23. Import Date 8/28/89			

(23) Line No.	(24) T.S.U.S.A. No. B. ADA CVD Case No.	(25) Description of Merchandise	(26) Net Quantity in T.S.U.S.A. Units	(27) Entered Value A. CHS B. Relationship	(28) T.S.U.S.A. Rate C. ADA/CVD Rate D. I.R.C. Rate E. Visa No.	(29) Duty and L.R. Tax Dollars Cents
006	SKIRT/OIV, COT, OTHER, GIRLS* 6204-92-20807 THUMCINT177BA1 C549-401-000 CVD	126 50 OZ 110 KG	INVOICE 2 CAT # 342 839 C85	8-7000002 1-2300005 V9TH111415 172 042	72.99 10.32 1.43 0.34	
				MERCHANDISE PROCESSING FEE HARBOR MAINTENANCE FEE I-V- 839.00 USD E-V- 839.00		
007	DRESSES, COTTON, OTHER, GIRLS* 6204-92-30602 THUMCINT177BA1 C549-401-000 CVD	90 50 OZ 44 KG	INVOICE 3 CAT # 336 720 C85	12-6000002 1-2300005 V4TH111416 172 042	90.72 8.86 1.23 0.24	
				MERCHANDISE PROCESSING FEE HARBOR MAINTENANCE FEE ---ENTRY CONTINUED---		

BROKER'S COPY

---ENTRY CONTINUED---

Declaration of Importer of Record (Owner or Purchaser) or Authorized Agent I declare that I am the Importer of record and that the actual owner, purchaser, or consignee for customs purposes is as shown above further declare that the merchandise was obtained pursuant to a purchase or agreement to purchase and that the prices set forth in the invoice are true. OR I also declare that the statements in the documents herein filed fully disclose to the best of my knowledge and belief the true prices, values, quantities, rebates, drawbacks, fees, commissions, and royalties and are true and correct, and that all goods or services provided to the seller of the merchandise either free or at a reduced cost are fully disclosed. I will immediately furnish to the appropriate customs officer any information showing a different status of goods. I am authorized by Paperwork Reduction Act of 1980. This information is needed to insure that importers/exporters are responsible under 110 T.S.U.S.A. for the right amount of money, to enforce information on imports. Your response is required.		U.S. CUSTOMS USE A. Lic. Code B. Assessed Duty C. Assessed Tax D. Assessed Other		TOTALS 27. Duty 28. Tax 29. Other	
---	--	--	--	--	--

DEPARTMENT OF THE TREASURY
UNITED STATES CUSTOMS SERVICE

ENTRY SUMMARY

1. Entry Summary Date 726	
2. Entry Type Code 7	3. Entry Date 8/29/89
4. Bond No. 720.00	5. Bond Type Code 7
6. Importer of Record Name and Address 726	7. Broker/Importer File No. 726
8. Ultimate Consignee Name and Address SAME	9. Consignee No. 726
10. Exporting Country TH	11. Export Date 8/28/89
12. Country of Origin TH	13. Missing Documents
14. LT No.	15. LT Date
16. Manufacturer SEE BELOW	17. Reference No.
18. Location of Goods/G.D. No.	
19. Mode of Transportation 10	20. Foreign Port of Loading
21. U.S. Port of Unloading	22. Import Date 8/28/89

23. Description of Merchandise		24. Tariff Classification		25. Duty and U.S. Tax	
Line No.	23. Description of Merchandise	24. Tariff Classification	25. Duty and U.S. Tax	Dollars	Cents
1	30. T.S.U.S.A. No. 100 31. ADA CVD Case No. 100	32. Gross Weight 720.00 US 33. Net Quantity in T.S.U.S.A. Units 720.00	34. (A) Inland Value (B) CHCS (C) Relationship	35. (A) T.S.U.S.A. Rate (B) ADA/CVD Rate (C) U.S. Rate (D) Visa No.	

BROKER'S COPY

26. Declaration of Importer of Record (Owner or Purchaser) or Authorized Agent		27. U.S. CUSTOMS USE		TOTALS	
I declare that I am the Importer of Record and that the actual owner, purchaser, or consignee for customs purposes is as shown above. I further declare that the merchandise was obtained pursuant to a purchase or agreement to purchase and that the prices set forth in the invoice are true.		OR I was not obtained pursuant to a purchase or agreement to purchase and the statements in the invoice as to value or price are true to the best of my knowledge and belief.		A. U.S. Code B. Assessed Duty C. Assessed Tax D. Assessed Other	
I also declare that the statements in the documents herein filed fully disclose to the best of my knowledge and belief the true prices, values, quantities, rebates, drawbacks, fees, commissions, and royalties and are true and correct, and that all goods or services provided to the owner of the merchandise either free or at a reduced cost are fully disclosed. I will immediately furnish to the appropriate customs officer any information showing a different state of facts.		Notice required by Paperwork Reduction Act of 1980. This information is required to be provided by the importer of record to the U.S. Customs Service, or its authorized agent, in order to determine the right amount of money to enforce other agency requirements. Failure to provide this information may result in information on imports. If you respond to mandatory requirements, you will be able to determine the right amount of money to enforce other agency requirements.		28. Duty 29. Tax 30. Other	

ORIGINAL

JULY 21, 1989

INVOICE NO. IG 247/89

INVOICE OF CHILDREN'S T-SHIRT

CONSIGNED TO

SHIPPED BY THE UNDERSIGNED FROM

YO

USA?

PER S.S. [REDACTED] [REDACTED] [REDACTED] [REDACTED] JULY 28, 1989

SHIPPING MARKS & NOS.	QUANTITY	DESCRIPTIONS	UNIT PRICE	AMOUNT
40 549	DOZEN	CAT. 638	F.O.B. USS/DOZ	USS
		61099070104 34%		
		CHILDREN'S T-SHIRT		
		65% POLYESTER 35% COTTON, KNITTED		
ITEM NO.	20	ITEM NO. TK 10116	22.00	240.00
TY :	30	TK 1012	12.00	360.00
/NO.	20	TK 1013	12.00	360.00
ACC IN	20	TK 1016	12.00	240.00
61062000				

CONT'D PAGE 2.

71-139

25

209

25



ORIGINAL

INVOICE NO. IG 249/89

JULY 21, 1989

INVOICE OF GIRL'S SKIRT

CONSIGNEE TO

SHIPPED BY THE UNDERSIGNED FROM

TO

USA.

PER S.S.

JULY 28, 1989

SHIPPING MARKS & NOS.	QUANTITY	DESCRIPTIONS	UNIT PRICE	AMOUNT
40 6690 ITEM NO. Q'TY : C/NO. MADE IN	DOZEN	CAT. 342 GIRL'S SKIRTS 100% COTTON, WOVEN ITEM NO. TB 5103 ITEM NO. TB 5126 ITEM NO. TY 208	2.70 US\$/DOZ	P.O.B. US\$
	10		17.64	176.40
	30		17.28	518.40
	10		14.40	144.00
	50	(FIFTY DOZEN ONLY)		888.80
		745 SQ. MTS. SEVEN HUNDRED FORTY FIVE SQUARE METRES EQUIVALENT (US DOLLARS EIGHT HUNDRED THIRTY EIGHT AND CENTS EIGHTY ONLY)		
		TOTAL PACKED IN 15 TOTAL NET WEIGHT 117.50 TOTAL GROSS WEIGHT 126.00 L/C NR. 6698 DD: 23-06-89 ISSUED BY :	CAPTAIN OF DEPARTMENT OF MINISTRY OF KGS. TEXTILE VISA NO	FOREIGN TRADE OF COMMERCE QUANTITY = 50 = 92
			SIGNATURE DATE	- 8 AUG 1989

ORIGINAL

INVOICE NO. IG 250/89

JULY 21, 1989

INVOICE OF GIRLS' DRESSES

CONSIGNEE TO

SHIPPED BY THE UNDERSIGNED FROM

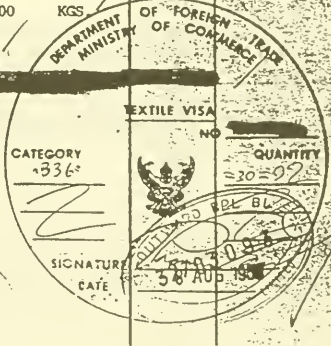
TO

USA.

PER S.S.

JULY 28, 1989

SHIPPING MARKS & NOS.	QUANTITY	DESCRIPTIONS	UNIT PRICE	AMOUNT
1/0 549-0 ITEM NO. : TY005 Q'TY : 5 DOZEN C/NO. 1-6 MADE IN	DOZEN 30	CAT. 336 GIRLS' DRESSES 100% COTTON, WOVEN ITEM NO. TY 005 (THIRTY DOZEN ONLY) 1,137.00 SQ. MTS. ONE THOUSAND ONE HUNDRED THIRTY SEVEN SQUARE METRS EQUIVALENT (US DOLLARS SEVEN HUNDRED AND TWENTY ONLY) TOTAL PACKED IN 6 CARTONS TOTAL NET WEIGHT 84.00 KGS. TOTAL GROSS WEIGHT 90.00 KGS. L/C NR. 6698 DD: 23-06-89 ISSUED BY :	12.6% F.O.B. USS/DOZ 24.00	USS 720.00



<u>Acct No.</u>	<u>Account Descrip</u>	<u>Amount</u>
651	Inv Change	(\$368,586.00)
653	Purchases	\$2,049,110.70
670	Duties	\$150,099.78
695	Freight	<u>\$18,373.68</u>
	Total	<u><u>\$1,848,998.16</u></u> *

* Difference of \$25.84 between cost of goods sold figure on 1989 tax return and above G/L accounts.

Form 1120		U.S. Corporation Income Tax Return		OMB No. 1545-0123	
Department of the Treasury Internal Revenue Service		For calendar year 1989 or tax year beginning 3/1/1989, ending 1/31/1990		1989	
Check if a—		Use label, otherwise, please print or type.		Employer identification number	
<input type="checkbox"/> Consolidated return <input type="checkbox"/> Personal holding co. <input type="checkbox"/> Personal service corp. (as defined in Temp. Regs. sec. 1.441-4T—see instructions)		***** CAR-RT-SORT ** CR2b		<input type="checkbox"/> Date incorporated <input type="checkbox"/> Total assets (see Specific Instructions)	
Check applicable boxes: (1) Initial return (2) Final return (3) Change in address				\$ 911601	
Income	1a Gross receipts or sales			1c Bal	2111788
	2 Cost of goods sold and/or operations (Schedule A, line 7)			2	1849074
	3 Gross profit (line 1c less line 2)			3	262764
	4 Dividends (Schedule C, line 19)			4	
	5 Interest			5	2622
	6 Gross rents			6	
	7 Gross royalties			7	
	8 Capital gain net income (attach Schedule D (Form 1120))			8	
	9 Net gain or (loss) from Form 4797, Part II, line 18 (attach Form 4797)			9	
	10 Other income (see instructions—attach schedule)			10	
	11 Total income—Add lines 3 through 10			11	265386
Deductions	12 Compensation of officers (Schedule E, line 4)			12	64800
	13a Salaries and wages 241851	b Less jobs credit		c Balance	34185
	14 Repairs			14	12022
	15 Bad debts			15	
	16 Rents			16	46520
	17 Taxes			17	13186
	18 Interest			18	2882
	19 Contributions (see Instructions for 10% limitation)			19	
	20 Depreciation (attach Form 4562)	20 4114		21b	4114
	21 Less depreciation claimed on Schedule A and elsewhere on return	21a		22	
	22 Depletion			23	520
23 Advertising			24		
24 Pension, profit-sharing, etc., plans			25		
25 Employee benefit programs			26	52100	
26 Other deductions (attach schedule)			27	220329	
27 Total deductions—Add lines 12 through 26			28	45057	
28 Taxable income before net operating loss deduction and special deductions (line 11 less line 27)			29a		
29 Less: a Net operating loss deduction (see instructions)			29b		
b Special deductions (Schedule C, line 20)			29c		
30 Taxable income—Line 28 less line 29c			30	45057	
31 Total tax (Schedule J, line 10)			31	6759	
Tax and Payments	32a Payments: a 1988 overpayment credited to 1989	32a		32d	
	b 1989 estimated tax payments	32b 12000		32e	
	c Less 1989 refund applied for on Form 4466	32c		32f	
	d Tax deposited with Form 7004	32d		32g	
	e Credit from regulated investment companies (attach Form 2439)	32e		32h	12000
	f Credit for Federal tax on fuels (attach Form 4136)	32f		32i	
	g Credit for Federal tax on fuels (attach Form 4136)	32g		32j	
	33 Enter any penalty for underpayment of estimated tax—Check <input type="checkbox"/> If Form 2220 is attached			33	
	34 Tax due—If the total of lines 31 and 33 is larger than line 32h, enter amount owed			34	
	35 Overpayment—If line 32h is larger than the total of lines 31 and 33, enter amount overpaid			35	5241
	36 Enter amount of line 35 you want: Credited to 1990 estimated tax 5241 Refunded			36	
Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.					
Please Sign Here	Signature of officer		Date	Title	
	FEB. 6. 1990			MANAGER	
Paid Preparer's Use Only	Preparer's signature		Date	Preparer's social security number	
	Firm's name (or yours if self-employed) and address		Check if self-employed <input type="checkbox"/>		

Fe 120 (1989)

Page 2

Schedule A Cost of Goods Sold and/or Operations (See instructions for line 2, page 1.)

1	Inventory at beginning of year	1	340,000
2	Purchases	2	2217,610
3	Cost of labor	3	
4a	Additional section 263A costs (see instructions—attach schedule)	4a	
b	Other costs (attach schedule)	4b	
5	Total—Add lines 1 through 4b	5	2557,610
6	Inventory at end of year	6	708,580
7	Cost of goods sold and/or operations—Line 5 less line 6. Enter here and on line 2, page 1.	7	1849,024

8a Check all methods used for valuing closing inventory:

(i) ☒ Cost (ii) ☐ Lower of cost or market as described in Regulations section 1.471-4 (see instructions)

(iii) ☐ Writedown of "subnormal" goods as described in Regulations section 1.471-2(c) (see instructions)

(iv) ☐ Other (Specify method used and attach explanation.)

b Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) ☐ Yes ☐ No

c If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO ☐ Yes ☐ No

d Do the rules of section 263A (with respect to property produced or acquired for resale) apply to the corporation? ☐ Yes ☐ No

e Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation ☐ Yes ☒ No

Schedule C Dividends and Special Deductions (See instructions.)

	(a) Dividends received	(b) %	(c) Special deductions (a) x (b)
1 Dividends from less-than-20%-owned domestic corporations that are subject to the 70% deduction (other than debt-financed stock)		70	
2 Dividends from 20%-or-more-owned domestic corporations that are subject to the 80% deduction (other than debt-financed stock)		80	
3 Dividends on debt-financed stock of domestic and foreign corporations (section 246A)		see instructions	
4 Dividends on certain preferred stock of less-than-20%-owned public utilities		41.176	
5 Dividends on certain preferred stock of 20%-or-more-owned public utilities		47.059	
6 Dividends from less-than-20%-owned foreign corporations and certain FSCs that are subject to the 70% deduction		70	
7 Dividends from 20%-or-more-owned foreign corporations and certain FSCs that are subject to the 80% deduction		80	N/A
8 Dividends from wholly owned foreign subsidiaries subject to the 100% deduction (section 245(b))		100	
9 Total—Add lines 1 through 8. See instructions for limitation			
10 Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958		100	
11 Dividends from certain FSCs that are subject to the 100% deduction (section 245(c)(1))		100	
12 Dividends from affiliated group members subject to the 100% deduction (section 243(a)(3))		100	
13 Other dividends from foreign corporations not included on lines 3, 6, 7, 8, or 11			
14 Income from controlled foreign corporations under subpart F (attach Forms 5471)			
15 Foreign dividend gross-up (section 78)			
16 IC-DISC and former DISC dividends not included on lines 1, 2, or 3 (section 246(d))			
17 Other dividends			
18 Deduction for dividends paid on certain preferred stock of public utilities (see instructions)			
19 Total dividends—Add lines 1 through 17. Enter here and on line 4, page 1.			

20 Total dividends—Add lines 9, 10, 11, 12, and 18. Enter here and on line 29b, page 1.

Schedule E Compensation of Officers (See instructions for line 12, page 1.)

Complete Schedule E only if total receipts (line 1a, plus lines 4 through 10, of page 1, Form 1120) are \$500,000 or more.

(a) Name of officer	(b) Social security number	(c) Percent of time devoted to business	(d) Percent of corporation stock owned		(f) Amount of compensation
			(d) Common	(e) Preferred	
1 [REDACTED]	[REDACTED]	100 %	11 %	%	64800
		%	%	%	
		%	%	%	
		%	%	%	
		%	%	%	
2 Total compensation of officers					
3 Less: Compensation of officers claimed on Schedule A and elsewhere on return					
4 Compensation of officers deducted on line 12, page 1					

Schedule J Tax Computation

1	Check if you are a member of a controlled group (see sections 1561 and 1563)	<input type="checkbox"/>	
2	If the box on line 1 is checked.		
a	Enter your share of the \$50,000 and \$25,000 taxable income bracket amounts (in that order):		
(i)	\$ <u>15</u> (ii) \$ <u>15</u>		
b	Enter your share of the additional 5% tax (not to exceed \$11,750) ▶	\$ <u>15</u>	
3	Income tax (see instructions to figure the tax). Check this box if the corporation is a qualified personal service corporation (see instructions). ▶	<input type="checkbox"/>	3 <u>6759</u>
4a	Foreign tax credit (attach Form 1118)	4a	
b	Possessions tax credit (attach Form 5735)	4b	
c	Orphan drug credit (attach Form 6765)	4c	
d	Credit for fuel produced from a nonconventional source (see instructions)	4d	
e	General business credit. Enter here and check which forms are attached:	4e	
	<input type="checkbox"/> Form 3800 <input type="checkbox"/> Form 3468 <input type="checkbox"/> Form 5884	4f	
	<input type="checkbox"/> Form 6478 <input type="checkbox"/> Form 6765 <input type="checkbox"/> Form 8586		
f	Credit for prior year minimum tax (attach Form 8801)		
5	Total—Add lines 4a through 4f	5	<u>6759</u>
6	Line 3 less line 5	6	-
7	Personal holding company tax (attach Schedule PH (Form 1120))	7	
8	Recapture taxes. Check if from: <input type="checkbox"/> Form 4255 <input type="checkbox"/> Form 8611	8	
9a	Alternative minimum tax (attach Form 4626)	9a	
b	Environmental tax (attach Form 4626)	9b	
10	Total tax—Add lines 6 through 9b. Enter here and on line 31, page 1	10	<u>6759</u>

Additional Information (See instruction F.)

	Yes	No
1. Refer to the list in the instructions and state the principal:		
(1) Business activity code no. ▶		
(2) Business activity ▶ <u>WHOLE SALE</u>		
(3) Product or service ▶ <u>APPAREL - CHILDREN'S CLOTHING</u>		
1 (1) Did the corporation at the end of the tax year own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? (For rules of attribution, see section 267(c).)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
If "Yes," attach a schedule showing: (a) name, address, and identifying number; (b) percentage owned; and (c) taxable income or (loss) before NOL and special deductions of such corporation for the tax year ending with or within your tax year.		
(2) Did any individual, partnership, corporation, estate, or trust at the end of the tax year own, directly or indirectly, 50% or more of the corporation's voting stock? (For rules of attribution, see section 267(c).) If "Yes," complete (a) through (c).	<input checked="" type="checkbox"/>	<input type="checkbox"/>
(a) Attach a schedule showing name, address, and identifying number.		
(b) Enter percentage owned ▶		
(c) Was the owner of such voting stock a person other than a U.S. person? (See instructions.) Note: If "Yes," the corporation may have to file Form 5472.		
If "Yes," enter owner's country ▶		
J Was the corporation a U.S. shareholder of any controlled foreign corporation? (See sections 951 and 957.)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
If "Yes," attach Form 5471 for each such corporation.		
K At any time during the tax year, did the corporation have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
(See instruction F and filing requirements for form TD F 90-22.1.) If "Yes," enter name of foreign country ▶		
L Was the corporation the grantor of, or transferor to, a foreign trust that existed during the current tax year, whether or not the corporation has any beneficial interest in it?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
If "Yes," the corporation may have to file Forms 3520, 3520-A, or 926.		
M During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? (See sections 301 and 316.)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
If "Yes," file Form 5452. If this is a consolidated return, answer here for parent corporation and on Form 851, Affiliations Schedule, for each subsidiary.		
N During this tax year, did the corporation maintain any part of its accounting/tax records on a computerized system?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
O Check method of accounting:		
(1) <input type="checkbox"/> Cash		
(2) <input checked="" type="checkbox"/> Accrual		
(3) <input type="checkbox"/> Other (specify) ▶		
P Check this box if the corporation issued publicly offered debt instruments with original issue discount	<input type="checkbox"/>	
If so, the corporation may have to file Form 8281.		
Q Enter the amount of tax-exempt interest received or accrued during the tax year ▶ \$ <u>15</u>		
R Enter the number of shareholders at the end of the tax year if there were 35 or fewer shareholders ▶		

Case #2

This importer is a sole proprietor located in Southern California and he imports women's apparel, such as blouses, pants and playsuits, from one "assembly" operation in Mexico (commonly referred to as a maquiladora) for resale to wholesalers here in the United States.

At the time of entry, the importer represented to Customs that his business entailed facilitating the assembly of wearing apparel in Mexico for a number of wholesalers here in the United States. Further, he represented that the amounts stated on the invoices from the maquiladora attached to the entry documents were an accurate reflection of the prices paid by him to the purportedly unrelated maquiladora. The importer filed approximately 350 entries during the period from 1986 to 1989 claiming a total value of \$5,980,508 and special duty free status for a substantial portion of that value. The duty free claims were based on certification that the fabric contained in the imported garments was of U.S. origin and was cut here in the U.S. for assembly in Mexico.

At the same time, the importer represented to the IRS that he was an employee of the maquiladora and earned no other income outside of that employment. When the Customs auditors reviewed his tax returns showing the relationship with the maquiladora, they began to question the value claimed by the importer on his entries. Based on analysis of the importer's tax returns and bank accounts, and Mexican tax data, the auditors were able to establish that the importer and the maquiladora were related as evidenced by salary payments to him by the Mexican plant.

As the Customs auditors attempted to reconstruct the actual business practices of the maquiladora and the importer, they discovered that the importer's many bank accounts had been used for both business and personal receipts and expenses, that he kept no other books and records other than incomplete documents relating to these bank accounts, and that some portion of both the personal and the business affairs of the importer were conducted on a cash basis. Customs was also able to establish that a substantial amount of the fabric contained in the imported merchandise was of foreign origin and had been cut in Mexico. Foreign fabric and U.S. fabric cut in Mexico are not eligible for duty free status.

Further, the audit revealed that the importer prepared the import invoices himself and undervalued the merchandise by fabricating the prices. Through review and analysis of third party invoices and other accounting records, the Customs auditors were able to establish that the actual value of the entries filed during the period from 1986 to 1989 was \$8,086,551 and that the importer's duty free claims totaling \$3.9 million for U.S. made components were invalid. As a consequence of these audit findings, the importer's dutiable value was increased by \$5,971,952 resulting in additional duties due Customs of \$1,502,799.

Customs has also referred this case to IRS for their determination whether any of the actual gross receipts received by the importer from its U.S. purchasers was, in fact, income taxable in the United States.

ARRY

(1) Entry Type Code 02		(2) Entry Summary Code 002	
(3) Entry Date 032787		(4) Port Code	
(5) Bond No.		(6) Bond Type Code 9	
(7) Consignee No.		(8) Broker/Importer File No.	
(9) Importer of Record Name and Address		(10) Importer No.	
(11) Exporting Country MX		(12) Export Date 032787	
(13) Country of Origin MULTI		(14) Missing Documents	
(15) LT. No.		(16) LT. Date	
(17) Mode of Transportation 30		(18) Manufacturer ID.	
(19) Foreign Port of Lading		(20) Location of Goods/G.O. No.	
(21) U.S. Port of Unloading		(22) Import Date 032787	
(23) Importing Carrier		(24) Reference No.	

SAME

(25) Line No.	(26) Description of Merchandise				(27) Net Quantity in T.S.U.S.A. Units		(28) Entered Value CHGS C. Relationship		(29) T.S.U.S.A. Rate A. ADA/CVD Rate C. LAC. Rate D. Visa No.		(30) Duty and L.R. Tax	
	(31) T.S.U.S.A. No. A. ADA CVD Case No.	(32) Gross Weight B. Manifest City.	(33) Net Quantity in T.S.U.S.A. Units	(34) Net Quantity in T.S.U.S.A. Units	(35) Net Quantity in T.S.U.S.A. Units	(36) Net Quantity in T.S.U.S.A. Units	(37) Net Quantity in T.S.U.S.A. Units	(38) Net Quantity in T.S.U.S.A. Units	(39) Net Quantity in T.S.U.S.A. Units	(40) Net Quantity in T.S.U.S.A. Units	(41) Net Quantity in T.S.U.S.A. Units	(42) Net Quantity in T.S.U.S.A. Units
431	WOMENS PLAYSUITS (659) 807.0050 384.9310	1400 PCS	117 DZN 303 LBS	2520 840 N	FREE 17Z 7MX-031542	162.80						
002 MX 428	WOMENS BLOUSES (341) 807.0050 384.4608	1145 PCS	95 DZN 158 LBS	1832 458 N	FREE 16.5Z 7MX-030997	75.57						
003 MX 129, 132	WOMENS BLOUSES (641) 807.0050 384.9115	8510 PCS	709 DZN 1411 LBS	15230 3753 N	FREE 27.5Z+17cp/1b 7MX-31535	1,081.05						
004 US	11055 PCS. ARTICLES OF U.S. ORG. RETURNED 800.0010											

INV. VALUE \$24,964.65
ENT. VALUE \$24,964.00

R 27-1987

EXAMINED/RELEASE

I declare that I am the
☐ Importer of record and that the actual
 owner, purchaser, or consignee for
 customs purposes is as shown above.
 OR
☐ owner or purchaser or
 agent thereof.
 I further declare that the merchandise
 was obtained pursuant to a purchase
 or agreement to purchase and that the
 prices set forth in the invoice are true
 OR
☐ was not obtained pursuant to a purchase or
 agreement to purchase and the statements
 in the invoice as to value or price are true to
 the best of my knowledge and belief.

I also declare that the statements in the documents herein filed fully disclose to the best of my
 knowledge and belief the true prices, values, quantities, rebates, drawbacks, fees, commissions,
 and royalties and are true and correct, and that all goods or services provided to the seller of the
 merchandise, either free or at reduced cost are fully disclosed. I will immediately furnish to the
 appropriate customs officer any additional information if requested.

Notice required by Paperwork Reduction Act of 1980. This information is required to be furnished by the
 importer/exporter to comply with U.S. Customs laws, to allow us to compute and collect the
 amount of money, to enforce other agency requirements, and to collect accurate statistics.

U.S. CUSTOMS USE		TOTALS	
A. Use Code	B. Ascertained Duty	(31) Duty	1,299.42
C. Ascertained Tax	(32) Tax		
D. Ascertained Other	(33) Other		
E. Ascertained Total	(34) Total		1,299.4

(4) Signature and stamp, this date

Customs Form 750 (10)

I, [REDACTED] DECLARE TO THE BEST OF MY KNOWLEDGE AND BELIEF THAT THE WEARING APPAREL WERE ASSEMBLED IN WHOLE OR IN PART FROM COMPONENTS AS LISTED AND DESCRIBED BELOW WHICH ARE THE PRODUCTS OF THE UNITED STATES.

IN ACCORDANCE WITH HEADNOTE NO. 3 PART 18 SCHEDULE 8 TARIFF SCHEDULES OF THE UNITED STATES.

DESCRIPTION OF OPERATIONS PERFORMED ABROAD ON THE UNITED STATES COMPONENTS INCLUDING THE ASSEMBLE AND ALL OTHER COMPONENTS:

REFER TO THE BREAKDOWN SHEET ON FILE
WITH UNITED STATES CUSTOMS HOUSE

LIST AND DESCRIPTION OF COMPONENTS:

STYLE	QUANTITY	ARTICLE	CATEGORY	T.S.U.S.A	INV.#	PORT OF EXPORT
[REDACTED]	760	BLOUSES	CAT 641	384.9115		CAL.
[REDACTED]	1145	BLOUSES	CAT 341	384.4608		CAL.
[REDACTED]	5550	BLOUSES	CAT 641	384.9115		CAL.
[REDACTED]	1900	BLOUSES	CAT 641	384.9115		CAL.
[REDACTED]	1400	SUN-SUIT	CAT 659	384.9310		CAL.

DATE: 03/27/87
ADDRESS:

SIGNATURE:
CAPACITY: GENERAL MANAGER

LIST AND DESCRIPTION OF COMPONENTS:

STYLE	QUANTITY	ARTICLE	CATEGORY	T.S.U.S.A	INV.#	PORT OF EXPORT
[REDACTED]	760	BLOUSES	CAT 641	384.9115		CAL.
[REDACTED]	1145	BLOUSES	CAT 341	384.4608		CAL.
[REDACTED]	5550	BLOUSES	CAT 641	384.9115		CAL.
[REDACTED]	1900	BLOUSES	CAT 641	384.9115		CAL.
[REDACTED]	1400	SUN-SUIT	CAT 659	384.9310		CAL.

I DECLARE TO THE BEST OF MY KNOWLEDGE AND BELIEF THE ABOVE DECLARATION AND ANY OTHER INFORMATION SUBMITTED HERewith OR OTHERWISE SUPPLIED OR REFERRED TO IS CORRECT AND THERE HAS BEEN COMPLIANCE WITH ALL PERTINENT HEADNOTES OF THE TARIFF SCHEDULES OF THE UNITED STATES OF AMERICA (19 U.S.C. 1205)

Map 27

SIGNATURE:

DATE: 03/27/87

TITLE:

ADDRESS:

██████████, DECLARE TO THE BEST OF MY KNOWLEDGE AND BELIEF THAT THE
 SING APPAREL WERE ASSEMBLED IN WHOLE OR IN PART FROM COMPONENTS AS
 LISTED AND DESCRIBED BELOW WHICH ARE THE PRODUCTS OF THE UNITED STATES.

IN ACCORDANCE WITH HEADNOTE NO. 3 PART 1B SCHEDULE B TARIFF
 SCHEDULES OF THE UNITED STATES.

DESCRIPTION OF OPERATIONS PERFORMED ABROAD ON THE
 UNITED STATES COMPONENTS INCLUDING THE ASSEMBLE
 AND ALL OTHER COMPONENTS:

 REFER TO THE BREAKDOWN SHEET ON FILE
 WITH UNITED STATES CUSTOMS HOUSE

LIST AND DESCRIPTION OF COMPONENTS:

STYLE	QUANTITY	ARTICLE	CATEGORY	T.S.U.S.A	INV.#	PORT OF EXPORT
██████	300	BLOUSES	CAT 641	384.9115		CAL.
						CAL.
						CAL.
						CAL.
						CAL.

DATE: 03/27/87
 ADDRESS:

SIGNATURE: _____
 CAPACITY: GENERAL MANAGER

LIST AND DESCRIPTION OF COMPONENTS:

STYLE	QUANTITY	ARTICLE	CATEGORY	T.S.U.S.A	INV.#	PORT OF EXPORT
██████	300	BLOUSES	CAT 641	384.9115		CAL.
						CAL.
						CAL.
						CAL.
						CAL.

I DECLARE TO THE BEST OF MY KNOWLEDGE AND BELIEF THE ABOVE DECLARATION AND
 ANY OTHER INFORMATION SUBMITTED HERewith OR OTHERWISE SUPPLIED OR REFERRED
 TO IS CORRECT AND THERE HAS BEEN COMPLIANCE WITH ALL PERTINENT HEADNOTES
 THE TARIFF SCHEDULES OF THE UNITED STATES OF AMERICA (19 U.S.C. 1202)

SIGNATURE: _____

DATE: 03/27/87
 ADDRESS:

I, [REDACTED] THE IMPORTER OF THE GOODS COVERED BY THE FOLLOWING INVOICES:

STATE THAT I DO NOT HAVE ANY KNOWLEDGE REGARDING THE PRESENCE OR THE AMOUNT OF ANY EXPORT QUOTA CHARGE IN THE INVOICE PRICE. I DID NOT AND WILL NOT PAY ANY ADDITIONAL AMOUNT OTHER THAN THE INVOICE PRICE FOR THE MERCHANDISE WHICH I HAVE BEEN INVOICED.

SIGNATURE: [REDACTED]

DATE: 03/27/87

TITLE:

ADDRESS:

MAR 27 1987

([REDACTED]) THE IMPORTER OF THE GOODS COVERED BY THE FOLLOWING INVOICES:

STATE THAT I DO NOT HAVE ANY KNOWLEDGE REGARDING THE PRESENCE OR THE AMOUNT OF ANY EXPORT QUOTA CHARGE IN THE INVOICE PRICE. I DID NOT AND WILL NOT PAY ANY ADDITIONAL AMOUNT OTHER THAN THE INVOICE PRICE FOR THE MERCHANDISE WHICH I HAVE BEEN INVOICED.

SIGNATURE:

DATE: 03/27/87

TITLE:

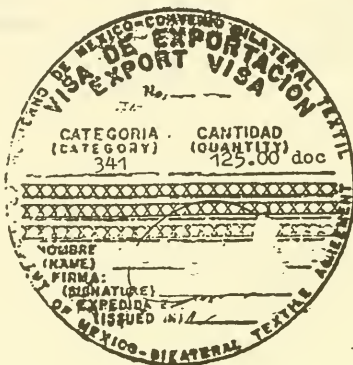
ADDRESS:

00
MAR 27 1987

NOMBRE :

FECHA : _____

CANTIDAD	ESTILO	DESCRIPCION	PRECIO	TOTAL
1,500	CAT. 341	ELUSAS	0.60	900.00



HACEMOS CONSTAR QUE ESTA CARTA-FACTURA SE EXPIDE UNICAMENTE PARA EFECTO DE SOLICITAR EL SELLO DE-VISAS TEXTILES.

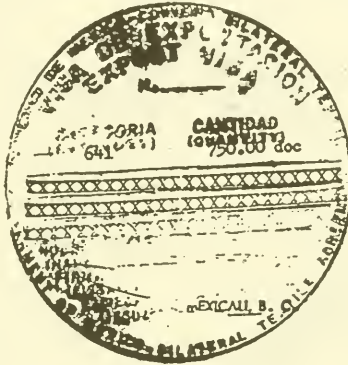
SUB-TOTAL 900.00
IVA _____
TOTAL 900.00

MAR 27 1988

NOMBRE :

FECHA : _____

CANTIDAD	ESTILO	DESCRIPCION	PRECIO	TOTAL
9000	CAT 641	BLUSAS	.60	5400.00



HACEMOS CONSTAR QUE ESTA CARTA-FACTURA SE EXPIDE
UNICAMENTE PARA EFECTO DE SOLICITAR EL SELLO DE-
VISAS TEXTILES.

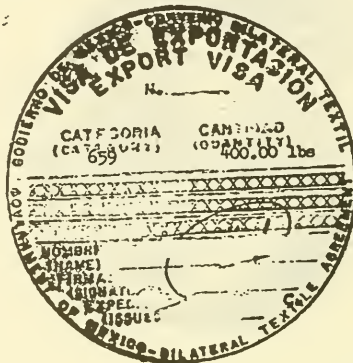
SUB-TOTAL _____
IVA _____
TOTAL 5400.00

MEMO-FACTURA NUM. _____

NOMBRE :

FECHA : _____

CANTIDAD	ESTILO	DESCRIPCION	PRECIO	TOTAL
1400	CAT 659	CAT 659	.60	360.00



HACEMOS CONSTAR QUE ESTA CARTA-FACTURA SE EXPIDE
UNICAMENTE PARA EFECTO DE SOLICITAR EL SELLO DE-
VISAS TEXTILES.

SUB-TOTAL _____
IVA _____
TOTAL 360.00

MEMO-FACTURA NUM. _____

1040 U.S. Individual Income Tax Return 1986

For the year January 1-December 31, 1986, or other tax year beginning 1986, ending 19, OMB No. 1545-0024

Use IRS label. Other: When, please print or type. Your first name and last (or full) name, also give spouse's name and last (or full) name. Your name. Your maiden name. Present home address (number or street or rural route, if you have a P.O. box, see page 1 of instructions). General or other address. City, town or post office, state, and ZIP code. If this address is different from the one shown on your 1985 return, check here: Yes No. Home Country "Yes" and "No" and other information relating your return.

Presidential Election Campaign: Do you want \$1 to go to this fund? If joint return, does your spouse want \$1 to go to this fund? Yes No. Yes No. For Privacy Act and Paperwork Reduction Act Notice, see instructions.

Filing Status: 1 Single. 2 Married filing joint return (even if only one had income). 3 Married filing separate returns. Enter spouse's social security on above and full name here. 4 Head of household (with qualifying person). (See page 1 of instructions.) If the qualifying person is your unmarried child but not your dependent, enter child's name here. 5 Qualifying widow(er) with dependent child (your spouse died in 1995). (See page 1 of instructions.)

Exemptions: 6a Yourself. 6b Spouse. 6c First names of your dependent children who lived with you. 6d First names of your dependent children who did not live with you (see page 1). 6e Other dependents: (1) Name, (2) Relationship, (3) Number of months lived in your home, (4) Did dependent have more than one of \$1,000 or more, (5) Did you provide more than one-half of dependent's support. Total number of exemptions claimed (also complete line 35).

Income: 7 Wages, salaries, tips, etc. (attach Form(s) W-2). 8 Interest income (also attach Schedule B if over \$400). 9a Dividends (also attach Schedule B if over \$400). 9b Exclusion. 10a Subtract line 9b from line 9a and enter the result. 11 Taxable refunds of state and local income taxes, if any, from the worksheet on page 9 of instructions. 12 Allowance received. 13 Business income or (loss) (attach Schedule C). 14 Capital gains or (loss) (attach Schedule D). 15 40% of capital gain distributions not reported on line 13 (see page 9 of instructions). 16 Other gains or (losses) (attach Form 4797). 17 Pelfy taxable pensions, IRA distributions, and annuities not reported on line 17 (see page 9). 18 Other pensions and annuities, including rollovers. Total received. 19 Taxable amount, if any, from the worksheet on page 10 of instructions. 20a Rental income or (loss) (attach Schedule E). 20b Unemployment compensation (amount). Total received. 21a Social security benefits (see page 14). 21b Taxable amount, if any, from worksheet on page 11. 22 Other income (list type and amount—see page 13 of instructions). 23 Add the amounts shown in the far right column for lines 7 through 22. This is your total income.

Adjustments to income: 24 Moving expenses (attach Form 3903 or 39037). 25 Employee business expenses (attach Form 2106). 26 IRA deduction, from the worksheet on page 12. 27 Keogh retirement plan and self-employed SEP deduction. 28 Penalty on early withdrawal of savings. 29 Allowance paid (recipient's last name) and social security on. 30 Deduction for a married couple when both work (attach Schedule B). 31 Add lines 24 through 30. These are your total adjustments.

Adjusted Gross Income: 32 Subtract line 31 from line 23. This is your adjusted gross income. If this line is less than \$11,000 and a child lived with you, see "Earned Income Credit" (line 52) on page 18 of instructions. If you want IRS to have your tax, see page 13 of instructions.

Form 1040 (1988)

Page 2

Tax
Compu-
tation(See
instructions
on page 13.)

33	Amount from line 32 (adjusted gross income)	33	93,935
34a	If you have a dependent, attach Schedule A (Form 1040) and enter the amount from Schedule A, line 28. Caution: If you have unearned income and can be claimed as a dependent on your parent's return, see page 13 of instructions and check here <input type="checkbox"/> . Also see page 13 if you are married. * If you are a dependent and your spouse has no income, or you are a dual-status alien.	34a	15,567
b	If you do not have a dependent but you made charitable contributions, enter your cash contributions here. (If you gave \$3,000 or more to any one organization, see page 14.)	34b	346
c	Enter your noncash contributions (see instructions) over and above Form 4223 if over \$500	34c	0
d	Add lines 34a and 34c. Enter the total	34d	0
35	Subtract line 34a or line 34d, whichever applies, from line 33	35	78,368
36	Multiply line 35 by the total number of exemptions claimed on line 6 (see page 14)	36	5,400
37	Transfer income. Subtract line 36 from line 35. Enter the result (but not less than zero)	37	73,968
38	Enter tax here. Check if from <input type="checkbox"/> Tax Table, <input checked="" type="checkbox"/> Tax Rate Schedule X, Y, or Z, or <input type="checkbox"/> Schedule G	38	17,821
39	Additional taxes (see page 14 of instructions). Enter here and check if from <input type="checkbox"/> Form 4878, <input type="checkbox"/> Form 4972, or <input type="checkbox"/> Form 6544	39	0
40	Add lines 38 and 39. Enter the total	40	17,821

Credits

(See
instructions
on page 14.)

41	Credit for child and dependent care expenses (attach Form 2442)	41	0
42	Credit for the elderly or for the permanently and totally disabled (attach Schedule D)	42	0
43	Partial credit for political contributions for which you have receipts	43	0
44	Add lines 41 through 43. Enter the total	44	0
45	Subtract line 44 from line 40. Enter the result (but not less than zero)	45	17,821
46	Foreign tax credit (attach Form 2134)	46	17,821
47	General business credit. Check if from <input type="checkbox"/> Form 3800, <input type="checkbox"/> Form 3468, <input type="checkbox"/> Form 6884, <input type="checkbox"/> Form 6078, or <input type="checkbox"/> Form 6785	47	0
48	Add lines 46 and 47. Enter the total	48	17,821
49	Subtract line 48 from line 45. Enter the result (but not less than zero)	49	0

Other
Taxes(Including
Advance EIC
Payments)

50	Self-employment tax (attach Schedule SE)	50	0
51	Alternative minimum tax (attach Form 6252)	51	0
52	Tax from expiration of investment credit (attach Form 4233)	52	0
53	Social security tax on tip income not reported to employer (attach Form 4137)	53	0
54	Tax on an RRA (attach Form 5323)	54	0
55	Add lines 50 through 54. This is your total tax	55	0

Payments

Attach Forms
W-2, W-2G,
and W-2P
to front.

56	Federal income tax withheld	56	0
57	1988 estimated tax payments and amount applied from 1985 return	57	0
58	Excess income credit (see page 15)	58	0
59	Amount paid with Form 4388	59	0
60	Excess social security tax and RRTA tax withheld (see or more instructions)	60	0
61	Credit for Federal tax on gasoline and special fuels (attach Form 4230)	61	0
62	Regulated investment company credit (attach Form 8433)	62	0
63	Add lines 56 through 62. These are your total payments	63	0

Refund or
Amount
You Owe

64	If line 63 is larger than line 55, enter amount OVERPAID	64	0
65	Amount of line 64 to be REFUNDED TO YOU	65	0
66	Amount of line 64 to be applied to your 1987 estimated tax	66	0
67	If line 55 is larger than line 63, enter AMOUNT YOU OWE. Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number, daytime phone number, and "1988 Form 1040" on it. Check <input type="checkbox"/> if Form 2210 (2210T) is attached. See page 17. Penalty \$	67	0

Please
Sign
Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.	
Your signature _____ Date _____	Your signature _____ Date _____
Spouse's signature (if joint return, 8321 must sign) _____ Date _____	Spouse's occupation _____ Date _____
Preparer's signature _____ Date 1-20-89	Check if self-employed <input type="checkbox"/> E.I. No. _____ ZIP code _____

SCHEDULES A&B
(Form 1040)

 Department of the Treasury
 Internal Revenue Service (1)

Schedule A—Itemized Deductions

(Schedule B is on back)

▶ Attach to Form 1040. ▶ See instructions for Schedules A and B (Form 1040).

(OMB No. 1545-0046)

1986

Attachment Sequence No. 07

Identical to sheet on Form 1040

Your marital status number

Medical and Dental Expenses	1 Prescription medicines and drugs and insulin	1		
	2 a Doctors, dentists, nurses, hospitals, insurance premiums you paid for medical and dental care, etc.	2a		
	b Transportation and lodging	2b		
	c Other (list—include hearing aids, dentures, eyeglasses, etc.) ▶			
		2c		
(Do not include expenses reimbursed or paid by others.)		3		
(See instructions on page 13.)	3 Add lines 1 through 2c, and enter the total here	4		
	4 Multiply the amount on Form 1040, line 33, by 6% (.06)			
	5 Subtract line 4 from line 3. If zero or less, enter -0-. Total medical and dental ▶	5		
Taxes You Paid	6 State and local income taxes	6		
	7 Real estate taxes	7	524	
	8 a General sales tax (see sales tax tables in instruction booklet)	8a	1011	
	b General sales tax on motor vehicles	8b		
	9 Other taxes (list—include personal property taxes) ▶	9		
(See instructions on page 23.)	10 Add the amounts on lines 6 through 9. Enter the total here.	Total taxes	10	1535
Interest You Paid	11 a Home mortgage interest paid to financial institutions (report deductible points on line 13)	11a	7275	
	b Home mortgage interest you paid to individuals (show that person's name and address) ▶	11b		
	12 Total credit card and charge account interest you paid	12		
	13 Other interest you paid (list payee's name and amount) ▶			
			1777	
			600	
			1330	
(See instructions on page 23.)	14 Add the amounts on lines 11a through 13. Enter the total here.	Total interest	14	1752
Contributions You Made	15 a Cash contributions. (If you gave \$3,000 or more to any one organization, report these contributions on line 15b.)	15a		
	b Cash contributions totaling \$3,000 or more to any one organization. (Show to whom you gave and how much you gave.) ▶			
	16 Other than cash. (You must attach Form 8283 if over \$500.)	16		
	17 Carryover from prior year	17		
	18 Add the amounts on lines 15a through 17. Enter the total here. Total contributions ▶	18		
(See instructions on page 23.)	19 Total casualty or theft losses. (You must attach Form 4684 or similar statement.) (See page 21 of instructions.)	19		
Casualty and Theft Losses				
Miscellaneous Deductions	20 Union and professional dues	20		
	21 Tax return preparation fee	21		
	22 Other (list type and amount) ▶			
(See instructions on page 22.)	23 Add the amounts on lines 20 through 22. Enter the total here. Total miscellaneous ▶	23		
Summary of Itemized Deductions	24 Add the amounts on lines 5, 10, 14, 18, 19, and 23. Enter your answer here.	24	17231	
	25 If you checked Form 1040 { Filing Status box 2 or 5, enter \$3,670 } { Filing Status box 1 or 4, enter \$2,480 } { Filing Status box 3, enter \$1,635 }	25	3670	
(See instructions on page 22.)	26 Subtract line 25 from line 24. Enter your answer here and on Form 1040, line 34a. (If line 25 is more than line 24, see the instructions for line 25 on page 22.)	26	15561	

For Paperwork Reduction Act Notice, see Form 1040 instructions.

Schedule A (Form 1040) 1986

If you report a loss below, and have amounts invested in that activity for which you are not at risk, you may have to file Form 6798. See instructions.

[illegible]

27 Add amounts in columns (a) and (b) and enter the total(s) here.

29 Deduction for section 179 property (from Form 1065, Schedule K-1, and Form 1120S, Schedule K-1).
(See instructions for limitations.)

30 Total partnership and S corporation income or (loss). Combine amounts on lines 28 and 29. Enter the total here and include in line 36 below.

EMPLOYERS DATA					
(a) Name	(b)	(c)	(d) Employer Identification number	(e) Flat fee (see instructions for at-risk deduction)	(f) Net income

22 Total estate and trust income or (loss). Combine amounts in columns (e) and (f), line 31. Enter the total here and include in line 36 below.

23	Windfall profit tax credit or refund received in 1985 (see instructions)	23	
34	Windfall profit tax withheld in 1985 (see instructions)	34	

25 Combine amounts on lines 23 and 24. Enter the total here and include in line 35 below

36 TOTAL income or (loss). Combine lines 28, 30, 32, and 35. Enter total here and on Form 1040, line 18 36 1414

37 Farmers and Fishermen: Enter your share of GROSS FARMING AND FISHING INCOME applicable to Parts I and II (see instructions).

Part V Optional Depreciation Worksheet.—You may use this worksheet to figure depreciation only on property placed in service before 1961. If you placed any property in service after 1960, you must use Form 4562 for all property.

	(a) Description of property	(b) Date acquired	(c) Cost or other basis	(d) Depreciation allowed or allowable in prior years	(e) Depreciation claimed	(f) Life or rate	(g) Depreciation for this year
A	Dwelling	12/78	\$1,000	13,600	SL	15	3,400
	Total (Property A)						3,400
B							
	Total (Property B)						
C							
	Total (Property C)						

Schedule W
(Form 1040)Department of the Treasury
Internal Revenue Service

Names as shown on Form 1040

Deduction for a Married Couple
When Both WorkFor Paperwork Reduction Act Notice, see Form 1040 instructions.
Attach to Form 1040.

OMB No. 1545-0048

1986

Attachment
Sequence No. 20

Your social security number

Step 1 Figure your earned income

	(a) You	(b) Your spouse
1 Wages, salaries, tips, etc., from Form 1040, line 7. (Do not include pensions or annuities reported on Form 1040, line 16 or lines 17a and 17b.)	1 60,000	1 15,000
2 Net profit or (loss) from self-employment (from Schedules C and F (Form 1040), Schedule K-1 (Form 1065), and any other earned income)	2 0	2 0
3 Add lines 1 and 2. This is your total earned income.	3 60,000	3 15,000

Step 2 Figure your qualified earned income

4 Add amounts entered on Form 1040, lines 25, 26, 27, and any repayment of supplemental unemployment benefits (sub-pay) included on line 31. Enter the total (see instructions below)	4 0	4 0
5 Subtract line 4 from line 3. This is your qualified earned income. If the amount in column (a) or (b) is zero (-0-) or less, stop here. You may not take this deduction	5 60,000	5 15,000

Step 3 Figure your deduction

6 Compare the amounts in columns (a) and (b) of line 5 above. Enter the smaller amount here. (Enter either amount if 5(a) and 5(b) are the same.) Do not enter more than \$30,000	6 15,000
7 Percentage used to figure the deduction (10%)	7 .10
8 Multiply the amount on line 6 by the percentage on line 7. This is the amount of your deduction. Enter the answer here and on Form 1040, line 30	8 3,000

Instructions

Complete this schedule and attach it to your Form 1040 if you take the deduction for a married couple when both work. You may take the deduction if both you and your spouse:

- work and have qualified earned income, and
- file a joint return, and
- do not file Form 2555 to exclude income or to exclude or deduct certain housing costs, and
- do not file Form 4563 to exclude income.

There are three steps to follow in figuring the deduction on Schedule W. Step 1 (lines 1, 2, and 3).—Figure earned income separately for yourself and your spouse.

Earned income.—This is generally income you receive for services you provide. It includes wages, salaries, tips, commissions, sub-pay, etc. (from Form 1040, line 7). It also includes income earned from self-employment (from Schedules C and F of Form 1040 and Schedule K-1 of Form 1065), and net

earnings and gains (other than capital gains) from the disposition, transfer, or licensing of property that you created.

Earned income does not include interest, dividends, social security benefits, IRA distributions, unemployment compensation, deferred compensation, or nontaxable income. It also does not include any amount your spouse paid you.

Caution: Do not consider community property laws in figuring your earned income.

Step 2 (lines 4 and 5).—Figure qualified earned income separately for yourself and your spouse by subtracting certain adjustments from earned income.

Qualified earned income.—This is the amount on which the deduction is based. Figure it by subtracting the total of certain adjustments from earned income. These adjustments (and the related lines on Form 1040) are:

- Employee business expenses (from line 25).
- IRA deduction (from line 26).
- Keogh retirement plan and self-employed SEP deduction (from line 27).

• Repayment of sub-pay included in the total on line 31. See the instructions on repayment of sub-pay on page 12 of the Form 1040 instructions.

Enter the total of any adjustments that apply to you or your spouse's earned income in the appropriate column of line 4.

Step 3 (lines 6, 7, and 8).—Figure the deduction based on the smaller of:

- the qualified earned income entered in column (a) or (b) of line 5, whichever is less, OR
- \$30,000.

Example.—You earned a salary of \$20,000 and had \$3,000 of employee business expenses (Form 1040, line 25). Your spouse earned \$17,000 and had an IRA deduction of \$1,000 (Form 1040, line 26). Your qualified earned income is \$17,000 (\$20,000 minus \$3,000) and your spouse's is \$16,000 (\$17,000 minus \$1,000). Because your spouse's qualified earned income is less than yours, the deduction is figured on your spouse's income. Therefore, the deduction is \$1,600 (\$16,000 x .10).

Schedule W (Form 1040) 1986

Form **1116**Department of the Treasury
Internal Revenue Service

Computation of Foreign Tax Credit

Individual, Fiduciary, or Nonresident Alien Individual

► Attach to Form 1040, 1040NR, 1041, or 990-T.

► See separate instructions.

OMB No. 1545-0043

1986Attachment
Sequence No. 52

Name

Identifying number as shown on page 1 of your tax return

Use a separate Form 1116 for each type of income. Check only one box. This form is being completed for credit for taxes on:

- ☐ Nonbusiness (section 904(d)) interest income
- ☐ Dividends from an IC-DISC or former DISC

- ☐ Distributions from a Foreign Sales Corporation (FSC) or former FSC
- ☒ All other income from sources outside the United States (including income from sources within U.S. possessions)

Resident of (name of country) ►

Notes: If you paid taxes to one foreign country, use column A in Parts I and II. If you paid taxes to more than one foreign country, use a separate column for each country.

Part I Taxable Income From Sources Outside the United States

Write the Name of the Foreign Country or U.S. Possession

- 1 Gross income from sources within country shown above (see instructions):

- a Dividends
- b Gross rents and royalties
- c Foreign source capital gain net income
- d Wages, salaries, and other employee compensation
- e Business or profession (Schedules C or F (Form 1040), K-1 (Form 1065), and K-1 (Form 1120S))
- f Gross income from trusts and estates
- g Other (including interest—attach schedule)
- h Add lines 1a through 1g

- 2 Applicable deductions and losses (see instructions):

- a Expenses directly allocable to the income on line 1a
- b Depreciation, depletion, repairs, and other expenses directly allocable to the income on line 1b
- c Other expenses directly allocable to specific income items (attach schedule)
- d Pro rata share of all other deductions not directly allocable:

- (i) Remeasured deductions (attach schedule)
- (ii) Other deductions (attach schedule)
- (iii) Add lines 2d(i) and 2d(ii)
- (iv) Total foreign source income (see instructions)
- (v) Gross income from all sources (see instructions)
- (vi) Divide line 2d(iv) by line 2d(v)
- (vii) Multiply line 2d(iii) by line 2d(vi)

- e Losses from foreign sources
- f Add lines 2a through 2c, 2d(vii), and 2e

- 3 Subtract line 2f from line 1h. Enter the result here and in Part III, line 6

Part III Foreign Taxes Paid or Accrued (Attach receipt or copy of return)

Country	1. Credit is claimed for taxes (see instructions)	2. Foreign Taxes Paid or Accrued					
		In Foreign Currency			In U.S. Dollars		
		Taxes Withheld at Source on:		Other Foreign Taxes Paid or Accrued	Taxes Withheld at Source on:		Other Foreign Taxes Paid or Accrued
		(a) Dividends	(b) Rents and Royalties		(a) Dividends	(b) Rents and Royalties	
A							
B	VARIOUS						31,500
C							31,500

- 4 Add lines A through C, column (v). Enter the total here and on Part III, line 8

For Paperwork Reduction Act Notice, see page 1 of separate instructions.

Form 1116 (2000)

Part III Computation of Foreign Tax Credit

1	Enter amount from Part II, line 3. (This is the total foreign taxes paid or accrued.)	1	31,500	
2	Carryback or carryover (attach detailed computation)	2	0	
3	Add lines 1 and 2.	3	31,500	
4	Reduction in foreign taxes (see instructions)	4	0	
5	Subtract line 4 from line 3. (This is the total amount of foreign taxes available for credit.)	5	31,500	
6	Enter amount from Part I, line 3. (This is your taxable income (or loss) from sources outside the United States.) If this is a loss, you have no foreign tax credit for the type of income you checked on page 1. Skip lines 7 through 15.	6	87,188	
7	Recapture of prior year overall foreign losses (attach computation)	7	0	
8	Subtract line 7 from line 6. This is your net foreign source taxable income	8	87,188	
9	Individuals: Enter amount from Form 1040, line 35, or from Form 1040NR, line 36. Estates and trusts: Make no entry; skip to line 11.	9	18,368	
10	Enter \$3,670 (joint return or widow(er)), \$2,480 (single or head of household), or \$1,835 (married filing separate return)	10	3,670	
11	Individuals: Subtract line 10 from line 9. Estates and trusts: Enter on this line your taxable income without the deduction for your exemption	11	74,698	
12	Divide line 8 by line 11. (If line 8 is more than line 11, enter the figure "1".)	12	1	
13	Individuals: Enter amount from Form 1040, line 43, or Form 1040NR, line 43. Estates and trusts: Enter amount from Form 1041, line 25c, or Form 990-T, line 6.	13	19,821	
14	Multiply line 13 by line 12. (Minimum amount of credit.)	14	19,821	
15	Enter the amount from line 5 or line 14, whichever is smaller. (If this is the only Form 1118 you are completing, skip lines 1 through 4 in Part IV and enter this amount on line 5, Part IV. Otherwise, complete the appropriate lines in Part IV.)	15	19,821	

Part IV Summary of Credits From Separate Parts III (See instructions)

1	Credit for taxes on nonbusiness (section 904(d)) interest income	1		
2	Credit for taxes on dividends from an IC-DISC or former DISC	2		
3	Credit for taxes on distributions from a FSC or former FSC	3		
4	Credit for taxes on all other income from sources outside the United States (including income from sources within U.S. possessions)	4		
5	Add lines 1 through 4	5	19,821	
6	Reduction of credit for international boycott operations (see "Reduction of Credit for International Boycott Operations" in instructions for Part III)	6	0	
7	Subtract line 6 from line 5. This is your foreign tax credit. Enter here and on Form 1040, line 46, Form 1040NR, line 46, Form 1041, line 25c, or Form 990-T, line 9(c)	7	19,821	

6251

Alternative Minimum Tax Computation

► Attach to Forms 1040, 1040NR, 1041 or 990-T (Trust).

OMB No. 1545-0047

1986

Attachment Sequence No. 32

Form
Department of the Treasury
Internal Revenue Service

Name(s) as shown on the return

Identifying number

1	Adjusted gross income (see instructions)	1	93,935
2	Deductions (Individuals, attach Schedule A (Form 1040) (see instructions):		
a	(1) Medical and dental expenses from Schedule A, line 3	2a(1)	
	(2) Multiply Form 1040, line 33, by 5% (0.05)	2a(2)	
	(3) Subtract line 2a(2) from line 2a(1). (If zero or less, enter zero.)	2a(3)	0
b	Contributions from Schedule A, line 18, OR Form 1040, line 344	2b	0
c	Casualty and theft losses from Schedule A, line 19	2c	0
d	Qualified interest on property used as a residence (see instructions)	2d	7,774
e	(1) Interest, other than line 2d above, from Schedule A, line 14	2e(1)	7,774
	(2) Net investment income (if zero or less, enter zero)	2e(2)	0
	(3) Enter the smaller of line 2e(1) or line 2e(2)	2e(3)	0
f	Gambling losses to the extent of gambling winnings from Schedule A, line 22	2f	0
g	Estate tax allowable under section 6914(c) from Schedule A	2g	0
h	Estate and trusts only: Charitable deduction and income distribution deduction	2h	0
i	Add lines 2a(3), b, c, d, e(3), f, g, and h	3	7,774
3	Subtract line 2i from line 1	3	86,161
4	Tax preference items:		
a	Dividend exclusion	4a	
b	60% capital gain deduction	4b	
c	Accelerated depreciation on nonrecovery real property or 15-, 18-, or 19-year real property	4c	
d	Accelerated depreciation on leased personal property or leased recovery property other than 15-, 18-, or 19-year real property	4d	
e	Amortization of certified pollution control facilities	4e	
f	Mining exploration and development costs	4f	
g	Circulation and research and experimental expenditures	4g	
h	Reserves for losses on bad debts of financial institutions	4h	
i	Depletion	4i	
j	Incentive stock options	4j	
k	Intangible drilling costs	4k	
l	Add lines 4a through 4k	4	0
5	Alternative minimum taxable income (add lines 3 and 4(l) (short period returns, see instructions))	5	86,161
6	Enter: \$40,000, if married filing joint return or qualifying widow(er); \$30,000, if single or head of household; \$20,000, if married filing separate return or estate or trust	6	40,000
7	Subtract line 6 from line 5. If zero or less, do not complete the rest of this form.	7	46,161
8	Enter 20% of line 7	8	9,232
9	Amount from Form 1040, line 43, or Form 1040NR, line 43. (Do not include Form 1040, line 33, or Form 1040NR, line 40.) (Estate and trusts, see instructions.)	9	0
10	Subtract line 9 from line 8. If zero or less, enter zero	10	9,232
11	Foreign tax credit	11	9,232
12	ALTERNATIVE minimum tax (subtract line 11 from line 10. Enter on your tax return, on the line identified as alternative minimum tax.	12	0

Instructions

Section references are to the Internal Revenue Code. Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information. Who Must File.—File this form if: (a) You are liable for the alternative minimum tax; or (b) you have one or more tax preference items on lines 4a through 4k; or (c) your adjusted gross income is more than line 6 and you have an amount on line 2a(3), and line 2a(2) includes income other than interest and dividend income. Individuals, estates or trusts may be liable if their adjusted gross income plus tax preference items listed on line 4 total more than line 6.

For more information, see Publication 908, Alternative Minimum Tax. Alternative Minimum Tax Deferred From Earlier Years.—If a net operating loss carryover from an earlier year(s) reduces taxable income for 1986 and the net operating loss giving rise to the carryover resulted in the deferral of minimum tax in that earlier year(s), all or part of the deferred minimum tax may be includable on tax liability for 1986. Figure the deferred minimum tax in the worksheet in Publication 908 and enter it on Form 1040, line 5 L, or Form 1041, line 3 L. Write "Deferred Minimum Tax." Partners, Beneficiaries, etc.—If you are or (1) Partner or shareholder of an S corporation, take into account separately your distributive share of items of income and deductions that enter into the computation of tax preference items.

(3) Beneficiary of an estate or trust, see section 561(c) and the line 4(2) instructions. (2) Participant in a common trust fund, see section 561(c). (4) Shareholder or holder of beneficial interest in a regulated investment company or a real estate investment trust, see section 561(c). Carryback and Carryover of Unused Credits.—If it may be necessary to figure the carryback or carryover of credits unused credits, see section 501(c)(3). Note: If you have an earned income credit, you must reduce that credit by any alternative minimum tax.

Line-by-Line Instructions

Line 1, Estate and Trusts.—Adjusted gross income is figured in the same way as for an

Form 6251 (1986)

Form **1116**Department of the Treasury
Internal Revenue Service

ACT: MINE TAX
Computation of Foreign Tax Credit
 Individual, Fiduciary, or Nonresident Alien Individual
 Attach to Form 1040, 1040NR, 1041, or 990-T.
 See separate instructions.

OMB No. 1545-0023

1986Attachment
Sequence No. 52

Name

Identifying number as shown on page 1 of your tax return

Use a separate Form 1116 for each type of income. Check only one box. This form is being completed for credit for taxes on:

- ☐ Nonbusiness (section 904(d)) interest income
☐ Dividends from an IC-DISC or former DISC
☐ Distributions from a Foreign Sales Corporation (FSC) or former FSC
☒ All other income from sources outside the United States (including income from sources within U.S. possessions)

Resident of (name of country) **►**

Note: If you paid taxes to one foreign country, use column A in Parts I and II. If you paid taxes to more than one foreign country, use a separate column for each country.

Part I Taxable Income From Sources Outside the United States

Write the Name of the Foreign Country or U.S. Possession

Mexico

1. Gross income from sources within country shown above (see instructions):

- a Dividends
 b Gross rents and royalties
 c Foreign source capital gain net income
 d Wages, salaries, and other employee compensation
 e Business or profession (Schedules C or F (Form 1040), K-1 (Form 1065), and K-1 (Form 1120S))
 f Gross income from trusts and estates
 g Other (including interest—attach schedule)
 h Add lines 1a through 1g

2. Applicable deductions and losses (see instructions):

- a Expenses directly allocable to the income on line 1e
 b Depreciation, depletion, repairs, and other expenses directly allocable to the income on line 1b
 c Other expenses directly allocable to specific income items (attach schedule)
 d Pro rata share of all other deductions not directly allocable:
 (i) Raritized deductions (attach schedule)
 (ii) Other deductions (attach schedule)
 (iii) Add lines 2d(i) and 2d(ii)
 (iv) Total foreign source income (see instructions)
 (v) Gross income from all sources (see instructions)
 (vi) Divide line 2d(v) by line 2d(v)
 (vii) Multiply line 2d(iii) by line 2d(vi)
 e Losses from foreign sources
 f Add lines 2a through 2c, 2d(vi), and 2e

3. Subtract line 2f from line 1h. Enter the result here and in Part III, line 6

Part II Foreign Taxes Paid or Accrued (Attach receipt or copy of return)

Country	I. Credit is claimed for taxes Gross amount directly repay:	II. Foreign Taxes Paid or Accrued					
		In Foreign Currency			In U.S. Dollars		
		Taxes Withheld at Source on:		(4) Other Foreign Taxes Paid or Accrued	Taxes Withheld at Source on:		(7) Other Foreign Taxes Paid or Accrued
	<input checked="" type="checkbox"/> Paid or Accrued	(a) Dividends	(b) Rents and Royalties		(a) Dividends	(b) Rents and Royalties	
A							
B							
C							

3. Add lines A through C, column (4). Enter the total here and on Part III, line 1

For Paperwork Reduction Act Notice, see page 1 of separate instructions.

Form 1116 (1986)

Case #3

The importer in this case imports boy's and men's shirts targeted for the 14 to 21 year old range. The importer's records reflect that it buys approximately \$10 Million worth of merchandise annually from sources in India, Nepal, Bangladesh, and Sri Lanka for resale to a number of U.S. retailers ranging from exclusive stores such as Bloomingdales to discount stores such as Ross Stores. The importer has gross annual receipts of approximately \$19 Million and annual profits of \$3 Million.

The importer conducts all of its overseas purchasing through its Bombay, India office, although it claims that it uses a Hong Kong company owned by relatives of the importer. The importer is a Subchapter S corporation owned by two brothers. One brother, the President, runs the Bombay office and arranges for purchases and production, while the other brother, the Executive Vice President, runs the U.S. design and sales operations.

Because the importer has relatives in all the key positions (the controller is a brother-in-law), the Customs auditors needed outside verification of the financial statements. Therefore, the auditors requested a copy of the importer's income tax return for 1985 to assure the veracity of the financial information provided.

When reviewing the importer's tax returns for the tax year 1985 (the importer used the 1984 tax forms for its 1985 return), Customs auditors identified a deduction for a "purchase commission" which was included by the importer as one of its cost of goods sold. The commission was \$1.4 Million for tax year 1985. The auditors found that the commission was not included in the import values reported to Customs and that the commission was paid to the Hong Kong company owned by a relative. The Hong Kong company did not provide any services for the importer, but acted as an investment company for the importer's family.

The auditors determined that expenses of the Bombay, India office were also deducted on the income tax return. The Bombay office performed the functions that the importer attributed to the Hong Kong Company. We found no communications regarding purchases or imports between the importer and its Hong Kong office. In fact, all Telex communications, including purchase requests, were sent directly to the Bombay office, which placed the orders and arranged for production.

The Bombay costs for 1985 totaled \$65,600. Salaries for the six Bombay employees totaled only \$6,400 for 1985, because wages are very low in India. The other Bombay costs were: Purchase of Auto (\$47,300), Auto Expense (\$3,835), Travel Expense (\$4,188), and miscellaneous costs (\$3,877).

Since the payments made to the Hong Kong company had nothing to do with the importer's business, they were properly omitted from the value of the imported goods. On the other hand, there appeared to be no legitimate basis for the importer to have claimed those payments as a tax deduction. Therefore, Customs referred this case to the IRS for its action.

1120S

U.S. Income Tax Return for an S Corporation

Form
Department of the Treasury
Internal Revenue ServiceFor calendar 1984 or tax year beginning 11/1/1984, ending 10/31/1985
For Paperwork Reduction Act Notice, see page 1 of the instructions.

OMB No 1545-0030

1984

An Act of Congress
For the year
1984A Date of election as an
S corporationUse
IRS
label
Other-
wise,
please
print
or type

Name

Number and street

City or town, state, and zip code

C Employer identification number

D Date incorporated

E Total assets (see Specific Instructions)

\$ 5,015,060

B Business Code No. (see
Specific Instructions)

F Check box if there has been a change in address from the previous year

Income

1	Gross receipts or sales	19,674,191	2	Less returns and allowances	569,298	Balance	19,104,893
3	Gross profit (subtract line 2 from line 1c)		4	Nonqualifying interest and nonqualifying dividends			172,992
5	Gross rents		6	Gross royalties			73201
7	Net gain or (loss) from Form 4797, line 14(a), Part II		8	Other income (see instructions—attach schedule)			84,543
9	TOTAL income (loss)—Combine lines 3 through 8 and enter here		9				5,775,638

Deductions

10	Compensation of officers		11	Salaries and wages	4,47,030	12	Repairs	11,544
13	Bad debts (see instructions)		14	Rents		15	Taxes	102,173
16a	Total deductible interest expense not claimed elsewhere on return (see instructions)		16b	Interest expense required to be passed through to shareholders on Schedules K and K-1, lines 15a(2) and 15a(3)		16c		
17a	Depreciation from Form 4562 (attach Form 4562)	92,489	17b	Depreciation claimed on Schedule A and elsewhere on return		17c		92,489
18	Depletion (Do not deduct oil and gas depletion. See instructions)		19	Advertising		20	Pension, profit-sharing, etc. plans	138,870
21	Employee benefit programs		22	Other deductions (attach schedule)		23	TOTAL deductions—Add lines 10 through 22 and enter here	3,560,821
24	Ordinary income (loss)—Subtract line 23 from line 9		24					3,174,917

Tax

25a	Excess net passive income tax (attach schedule)		25b	Tax from Schedule D (Form 1120S), Part IV		25c	None
26a	Tax deposited with Form 7004		26b	Credit for Federal tax on gasoline and special fuels (attach Form 4136)		26c	None
27	TAX DUE (subtract line 26c from line 25c). See instructions for Paying the Tax.		28	OVERPAYMENT (subtract line 25c from line 26c)			None

Please
Sign
Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer

Date

Title

Paid
Preparer's
Use Only

Preparer's signature

Date

Check if self-employed

Preparer's social security number

Form name (or yours, if self-employed) and address

E1 No

ZIP code

Form 1120S (1984)

11205 (1984)

Schedule A Cost of Goods Sold and/or Operations (See instructions for Schedule A)

1	Inventory at beginning of year	1	641,949
2	Purchases	2	9,743,887
3	Cost of labor	3	
4	Other costs (attach schedule)	4	52,062,589
5	Total—Add lines 1 through 4	5	15,596,095
6	Inventory at end of year	6	1,961,675
7	Cost of goods sold and/or operations—Subtract line 6 from line 5. Enter here and on line 2, page 1.	7	13,634,420

(a) Check all methods used for valuing closing inventory:

(i) ☐ Cost

(ii) ☒ Lower of cost or market as described in Regulations section 1.471-4 (see instructions)

(iii) ☐ Writedown of "subnormal" goods as described in Regulations section 1.471-2(c) (see instructions)

(iv) ☐ Other (Specify method used and attach explanation) _____

(b) Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) ☐

(c) If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO ☐ (b)(c) ☐

(d) If you are engaged in manufacturing, did you value your inventory using the full absorption method (Regulations section 1.471-11)? ☐ Yes ☐ No

(e) Was there any change in determining quantities, cost, or valuations between opening and closing inventory? ☐ Yes ☒ No
If "Yes," attach explanation _____

Additional Information Required

	Yes	No
G Did you at the end of the tax year own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? (For rules of attribution, see section 267(c).) If "Yes," attach a schedule showing:		X
(1) Name, address, and employer identification number;		
(2) Percentage owned;		
(3) Highest amount owed by you to such corporation during the year; and		
(4) Highest amount owed to you by such corporation during the year.		
(Note: For purposes of G(3) and G(4), "highest amount owed" includes loans and accounts receivable/payable.)		
H Refer to the listing of Business Activity Codes and state your principal business activity: <u>W.H.O.L.E.S.A.L.E. S.A.F.E.S.</u> ; Product or service: <u>A.P.P.A.R.E.L.</u>		
I Were you a member of a controlled group subject to the provisions of section 1561?		X
J Did you claim a deduction for expenses connected with:		
(1) Entertainment facilities (boat, resort, ranch, etc.)?		X
(2) Living accommodations (except for employees on business)?		X
(3) Employees attending conventions or meetings outside the North American area? (See section 274(h).)		X
(4) Employees' families at conventions or meetings? If "Yes," were any of these conventions or meetings outside the North American area? (See section 274(h).)		X
(5) Employee or family vacations not reported on Form W-2?		X
K At any time during the tax year, did you have an interest in or a signature or other authority over a bank account, securities account, or other financial account in a foreign country? (See instructions for exceptions and filing requirements for form TDF 90-22.1.) If "Yes," write the name of the foreign country: _____		X
L Were you the grantor of, or transferor to, a foreign trust which existed during the current tax year, whether or not you have any beneficial interest in it? If "Yes," you may have to file Forms 3520, 3520-A, or 926		X
M During this tax year did you maintain any part of your accounting/tax records on a computerized system?	X	
N Check method of accounting: (1) <input type="checkbox"/> Cash (2) <input checked="" type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) _____		
O Check this box if the S corporation has filed or is required to file Form 8264, Application for Registration of a Tax Shelter.		<input type="checkbox"/>

Form 1120S

EYE 10-31-1985

PAGE 2, SCHEDULE A - COST OF GOODS SOLD

LINE 4 - OTHER COSTS

FREIGHT

1,671.50

DUTY

2,097.046

PURCHASER'S COMMISSION

1,407.821

LOCAL FREIGHT

300.42

5,282.59

PAGE 1, LINE 2 - OTHER INCOME

COMMISSION INCOME

477.6

BAD DEBT RECOVERY

798.07

845.43

FORM 1120S

FYE 12-31-85

Prepared By	Date
Reviewed By	

PAGE 1, LINE 22 - OTHER DEDUCTIONS

AUTO EXPENSES	10456	(1)
OFFICE + WAREHOUSE SUPPLIES	22683	(4)
SALES DISCOUNTS	8013	
SALES COMMISSIONS	51221	
PROMOTION + ENTERTAINMENT	3960	
TRAVEL	62706	(3)
TRAVEL - AIRFARES	15215	(5)
TRAVEL - OTHER	22667	(3)
TRADE SHOWS + DISPLAYS	20114	
INQUIRIES	14973	
SAMPLES + FABRIC DEVELOPMENT	122579	
LEGAL + PROFESSIONAL	16281	
ACCOUNTING EXPENSE	11465	
TELEPHONE	27718	(2)
TELEX	8207	
BANK CHARGES	41726	(6)
POSTAGE	5513	
UTILITIES	6019	
DUES + SUBSCRIPTIONS	878	
RETIREMENT PLAN EXPENSES	3643	
ABANDONMENT OF FIXED ASSETS	8321	
COMPUTER SERVICES	7463	
LABORATORY SERVICES	1593	
MISCELLANEOUS EXPENSE	1453	(8+9)
	<u>1012172</u>	

INDIA PAPERS.
10-21-1915

[illegible]

how is he doing then and how much of it? Since the 1st of
the year, I have been in the same old place, and I have not
been able to get any more of it. I have not been able to
get any more of it. I have not been able to get any more of it.

10. 7. 1895

[illegible]

SCHEDULE OF COMMISSION STATEMENTS
FISCAL YEAR 1985

MONTH	YEAR	DOLLAR AMOUNT
November	1984	\$50,171.90
December	1984	36,488.01
January	1985	127,192.39
February	1985	165,150.29
March	1985	151,678.20
April	1985	84,763.89
May	1985	110,242.36
June	1985	157,451.30
July	1985	203,721.62
August	1985	115,118.04
September	1985	83,870.28
October	1985	121,973.03
TOTAL COMMISSIONS		\$1,407,821.31

NOTE:

Total commissions for November 1984 through July 1985 were \$1,086,859.96.

Total commissions for August 1985 through October 1985 were \$320,961.35.

Both these figures closely approximate general ledger entries.

November 7, 1985

To: [REDACTED]

COMMISSION STATEMENT
FOR
OCTOBER 1985

<u>NAME</u>	<u>TOTAL</u>
[REDACTED]	\$50,073.90
[REDACTED]	82,010.19
[REDACTED]	63,276.00
[REDACTED]	9,153.88
[REDACTED]	60,624.00
[REDACTED]	41,994.00
[REDACTED]	52,424.75
[REDACTED]	41,770.88
[REDACTED]	170,855.15
[REDACTED]	83,567.68
[REDACTED]	16,650.00
[REDACTED]	36,584.15
[REDACTED]	17,700.00
[REDACTED]	12,117.12
[REDACTED]	15,450.00
[REDACTED]	16,531.20
[REDACTED]	6,000.00
[REDACTED]	9,450.00
[REDACTED]	6,395.40
[REDACTED]	15,450.00
[REDACTED]	5,070.00
Subtotal	\$813,153.50
Commission rate @	15%
Commission Total	\$121,973.03

Please pay, U.S. Dollars One Hundred Twenty One
Thousand Nine Hundred Seventy Three and 03 cents. Thank You.

[REDACTED]

1.055 01

Ultimate Consignee Name and Address [REDACTED]		10 Consignee No [REDACTED]	11 Importer of Record Name and Address [REDACTED]	12 Invoice No [REDACTED]
[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]		[REDACTED]	13 Exporting Country NE NEPAL	14 Export Date 071585
[REDACTED]		[REDACTED]	15 Country of Origin NE NEPAL	16 Missing Documents [REDACTED]
[REDACTED]		[REDACTED]	17 IT No XXXXXXXX	18 IT Date 071585
[REDACTED]		[REDACTED]	19 Manufacturer ID [REDACTED]	19a Reference No [REDACTED]
19 BL or AWB No [REDACTED]	20 Mode of Transportation 40	20a Regulated Port of Loading [REDACTED]	20b Load and Pack CO No [REDACTED]	
21 Importing Co. or [REDACTED]				
22 US Regulatory [REDACTED]	23 Import License 071585			

22	23	24	25	26
Line No.	23	24	25	26
1	23	24	25	26
2	23	24	25	26
3	23	24	25	26
4	23	24	25	26
5	23	24	25	26
6	23	24	25	26
7	23	24	25	26
8	23	24	25	26
9	23	24	25	26
10	23	24	25	26
11	23	24	25	26
12	23	24	25	26
13	23	24	25	26
14	23	24	25	26
15	23	24	25	26
16	23	24	25	26
17	23	24	25	26
18	23	24	25	26
19	23	24	25	26
20	23	24	25	26
21	23	24	25	26
22	23	24	25	26
23	23	24	25	26
24	23	24	25	26
25	23	24	25	26
26	23	24	25	26
27	23	24	25	26
28	23	24	25	26
29	23	24	25	26
30	23	24	25	26
31	23	24	25	26
32	23	24	25	26
33	23	24	25	26
34	23	24	25	26
35	23	24	25	26
36	23	24	25	26
37	23	24	25	26
38	23	24	25	26
39	23	24	25	26
40	23	24	25	26
41	23	24	25	26
42	23	24	25	26
43	23	24	25	26
44	23	24	25	26
45	23	24	25	26
46	23	24	25	26
47	23	24	25	26
48	23	24	25	26
49	23	24	25	26
50	23	24	25	26
51	23	24	25	26
52	23	24	25	26
53	23	24	25	26
54	23	24	25	26
55	23	24	25	26
56	23	24	25	26
57	23	24	25	26
58	23	24	25	26
59	23	24	25	26
60	23	24	25	26
61	23	24	25	26
62	23	24	25	26
63	23	24	25	26
64	23	24	25	26
65	23	24	25	26
66	23	24	25	26
67	23	24	25	26
68	23	24	25	26
69	23	24	25	26
70	23	24	25	26
71	23	24	25	26
72	23	24	25	26
73	23	24	25	26
74	23	24	25	26
75	23	24	25	26
76	23	24	25	26
77	23	24	25	26
78	23	24	25	26
79	23	24	25	26
80	23	24	25	26
81	23	24	25	26
82	23	24	25	26
83	23	24	25	26
84	23	24	25	26
85	23	24	25	26

PAID CT
JUL 20 1885
CASHIER U S CUSTOMS
SEATTLE WASHINGTON

(SUP REF 072305)

[illegible]

Office: [REDACTED]
 Kathmandu, NEPAL
 Phone: 214791
 Fy: [REDACTED]
 Dhengadi (NEPAL)

SHIPPING MARK

DATE OF INVOICE

1st JULY 1985

INVOICE NUMBER

SOLD TO

SHIPPED IN GOOD ORDER AND CONDITION PER

INVOICE FOR

SHIPPED PER

L/C NO:

AWB NO.

DOCUMENTS DRAWN THROUGH

NEPAL

Serial No	DESCRIPTION OF GOODS	QTY.	RATE	Unit Price	AMOUNT
57 CARTON.	7000 PCS. 100% COTTON T-SHIRT MEN'S READYMADE GARMENTS AS ORDERED ON PURCHASE ORDER NO: [REDACTED] & [REDACTED] A STYLE NO: [REDACTED] S/S HOME ST. ELECT [REDACTED] [REDACTED] [REDACTED]	6700 PCS.		2.00	13,550
			ADD INSURANCE		74
					13,634
			US \$ TOTAL C J I		
			565		
			2209 #		
			1988 lbs		

E. & O. E.

DEPT. OF THE TREASURY
STATES CUSTOMS SERVICE
ENCL. 1, 1981, 1982, 1984

SPECIAL CUSTOMS IN JICE
(1) TO BE COMPLETED BY THE EXPORTER AND NON-PURCHASED GOODS

1. SELLER [REDACTED]	2. DOCUMENT NO. [REDACTED]	3. INVOICE NO. AND DATE [REDACTED] 7/85
4. CONSIGNEE [REDACTED]	5. REFERENCES [REDACTED]	6. BUYER (IF DIFFERENT FROM CONSIGNEE) X
7. ORIGIN OF GOODS [REDACTED]	8. TERMS OF SALE, PAYMENT, AND DISCOUNT LETTER OF CREDIT	
9. ADDITIONAL TRANSPORTATION INFORMATION BY AIR VIA BKK		

14. MARKS AND NUMBERS ON SHIPMENT PACKAGES	15. NUMBER OF PACKAGES	16. FULL DESCRIPTION OF GOODS	17. QUANTITY	18. UNIT PRICE 18. HOME MARKET 19. INVOICE	20. INVOICE TOTALS
5. PER CNEE ADDR CN CTNS	57CTNS	MEN'S READYMADE GARMENTS AS PER PURCHASE ORDER NO [REDACTED] & [REDACTED] STYLE NO [REDACTED]	6780.PCS		USD13,6

21. ☐ If the production of these goods involved furnishing goods or services to the artist or a, results such as dyes, molds, tools, engineering work, and the value is not included in the invoice price, check Box (21) and explain below

22. DECLARATION OF SELLER/SHIPPER (OR AGENT)

I declare

(A) ☐ If there are any rebates, drawbacks or duties allowed upon the exportation of goods, I have checked box (A) and itemized separately below

(B) ☐ If the goods were not sold or agreed to be sold, I have checked box (B) and have indicated in column 18 the price I would be willing to receive

I further declare that there is no other invoice differing from this one (unless otherwise described below) and that all statements contained in this invoice and declaration are true and correct

(C) SIGNATURE OF SELLER/SHIPPER (OR AGENT)

23. THIS SPACE FOR CONTINUING ANSWERS

23. PACKING COSTS

24. OCEAN OR INTERNATIONAL FREIGHT

25. DOMESTIC FREIGHT CHARGES

26. INSURANCE COSTS

27. OTHER COSTS (Specify Below)

DIR. .
KATHMANDU, NEPAL

P.O.M. [REDACTED]

To.

M/s [REDACTED]

Our Invoice No. [REDACTED]

DATE 1.7.1965

PACKING LIST

QTY NO. PCS	Style No.	Description of Goods	XS	SIZE				Only
				S	M	L	XL	
5001	7	BOARDS	003	140	150	200	70	640 Pcs
5001	3	BOARDS	006	60	120	120	30	360 "
5001	12	BOARDS	004	206	615	402	123	1476 "
5001	8	BOARDS	005	168	405	324	81	792 "
5001	1	BOARDS	006	20	50	26	10	120 "
5001	1	BOARDS	007	12	30	26	6	72 "
5001	3	BOARDS	003	50	140	142	28	336 "
5001	1	BOARDS	004	22	55	44	11	132 "
5001	3	BOARDS	005	64	140	128	32	384 "
5001	3	BOARDS	006	66	105	120	33	396 "
5001	3	BOARDS	007	50	125	100	25	300 "
		P.O.M. [REDACTED] (A)						
5001	4	BOARDS	003	60	200	160	40	480 "
5001	4	BOARDS	004	80	200	160	40	480 "
5001	3	BOARDS	005	60	150	120	30	360 "
5001	1	BOARDS	006	4	15	11	3	28 "
			004	1	1	1	1	4 "
			007	2	2	3	1	7 "
TOTAL QUANTITY :- 6700 Pcs								
TOTAL CARTONS :- 57 CANS								

60 E

DECLARATION

_____(name), declare that the articles described below and covered by the entry to which this declaration relates were subjected to manufacturing or processing operation in, and /or incorporate materials originating in, the foreign country^a or countries^a identified below. I declare that the information set forth in this declaration is correct and true to the best of my information, knowledge and belief.

A. _____ (country^a)

B. _____ (country^a)

C. _____ (country^a)

D. _____ (country^a)

etc.

Kind of Identification, Number	Description of article and quantity	Manufacturing and/or Processing Operations		Materials	
		Description of manufacturing and/or processing operations and country ^a of manufacture and/or processing	Direct costs of manufacturing and/or processing operations	Description of material and country ^a of production.	Cost of value of material
100	COTTON YARN - 6780 PCS	FABRIC MADE & CUT/STITCHED IN GARMENT/TRIM/ FINISH GARMENT/ PRESS/PACK IN NEPAL (B)	US\$ 1.30	COTTON FABRIC (A)	US\$ 0.70

100, JULY 1995

Signature

the IMPORTER

Country

Country or countries when used in this declaration includes territories and regular possessions of the United States.

July 1985 Check Record (Purchases)

Pg 6

111	112	113	114	115	116	117	118	119	120	121	122	123	124	125	126	127	128	129	130	131	132	133	134	135	136	137	138	139	140	141	142	143	144	145	146	147	148	149	150	151	152	153	154	155	156	157	158	159	160	161	162	163	164	165	166	167	168	169	170	171	172	173	174	175	176	177	178	179	180	181	182	183	184	185	186	187	188	189	190	191	192	193	194	195	196	197	198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300	301	302	303	304	305	306	307	308	309	310	311	312	313	314	315	316	317	318	319	320	321	322	323	324	325	326	327	328	329	330	331	332	333	334	335	336	337	338	339	340	341	342	343	344	345	346	347	348	349	350	351	352	353	354	355	356	357	358	359	360	361	362	363	364	365	366	367	368	369	370	371	372	373	374	375	376	377	378	379	380	381	382	383	384	385	386	387	388	389	390	391	392	393	394	395	396	397	398	399	400	401	402	403	404	405	406	407	408	409	410	411	412	413	414	415	416	417	418	419	420	421	422	423	424	425	426	427	428	429	430	431	432	433	434	435	436	437	438	439	440	441	442	443	444	445	446	447	448	449	450	451	452	453	454	455	456	457	458	459	460	461	462	463	464	465	466	467	468	469	470	471	472	473	474	475	476	477	478	479	480	481	482	483	484	485	486	487	488	489	490	491	492	493	494	495	496	497	498	499	500	501	502	503	504	505	506	507	508	509	510	511	512	513	514	515	516	517	518	519	520	521	522	523	524	525	526	527	528	529	530	531	532	533	534	535	536	537	538	539	540	541	542	543	544	545	546	547	548	549	550	551	552	553	554	555	556	557	558	559	560	561	562	563	564	565	566	567	568	569	570	571	572	573	574	575	576	577	578	579	580	581	582	583	584	585	586	587	588	589	590	591	592	593	594	595	596	597	598	599	600	601	602	603	604	605	606	607	608	609	610	611	612	613	614	615	616	617	618	619	620	621	622	623	624	625	626	627	628	629	630	631	632	633	634	635	636	637	638	639	640	641	642	643	644	645	646	647	648	649	650	651	652	653	654	655	656	657	658	659	660	661	662	663	664	665	666	667	668	669	670	671	672	673	674	675	676	677	678	679	680	681	682	683	684	685	686	687	688	689	690	691	692	693	694	695	696	697	698	699	700	701	702	703	704	705	706	707	708	709	710	711	712	713	714	715	716	717	718	719	720	721	722	723	724	725	726	727	728	729	730	731	732	733	734	735	736	737	738	739	740	741	742	743	744	745	746	747	748	749	750	751	752	753	754	755	756	757	758	759	760	761	762	763	764	765	766	767	768	769	770	771	772	773	774	775	776	777	778	779	780	781	782	783	784	785	786	787	788	789	790	791	792	793	794	795	796	797	798	799	800	801	802	803	804	805	806	807	808	809	810	811	812	813	814	815	816	817	818	819	820	821	822	823	824	825	826	827	828	829	830	831	832	833	834	835	836	837	838	839	840	841	842	843	844	845	846	847	848	849	850	851	852	853	854	855	856	857	858	859	860	861	862	863	864	865	866	867	868	869	870	871	872	873	874	875	876	877	878	879	880	881	882	883	884	885	886	887	888	889	890	891	892	893	894	895	896	897	898	899	900	901	902	903	904	905	906	907	908	909	910	911	912	913	914	915	916	917	918	919	920	921	922	923	924	925	926	927	928	929	930	931	932	933	934	935	936	937	938	939	940	941	942	943	944	945	946	947	948	949	950	951	952	953	954	955	956	957	958	959	960	961	962	963	964	965	966	967	968	969	970	971	972	973	974	975	976	977	978	979	980	981	982	983	984	985	986	987	988	989	990	991	992	993	994	995	996	997	998	999	1000	1001	1002	1003	1004	1005	1006	1007	1008	1009	1010	1011	1012	1013	1014	1015	1016	1017	1018	1019	1020	1021	1022	1023	1024	1025	1026	1027	1028	1029	1030	1031	1032	1033	1034	1035	1036	1037	1038	1039	1040	1041	1042	1043	1044	1045	1046	1047	1048	1049	1050	1051	1052	1053	1054	1055	1056	1057	1058	1059	1060	1061	1062	1063	1064	1065	1066	1067	1068	1069	1070	1071	1072	1073	1074	1075	1076	1077	1078	1079	1080	1081	1082	1083	1084	1085	1086	1087	1088	1089	1090	1091	1092	1093	1094	1095	1096	1097	1098	1099	1100	1101	1102	1103	1104	1105	1106	1107	1108	1109	1110	1111	1112	1113	1114	1115	1116	1117	1118	1119	1120	1121	1122	1123	1124	1125	1126	1127	1128	1129	1130	1131	1132	1133	1134	1135	1136	1137	1138	1139	1140	1141	1142	1143	1144	1145	1146	1147	1148	1149	1150	1151	1152	1153	1154	1155	1156	1157	1158	1159	1160	1161	1162	1163	1164	1165	1166	1167	1168	1169	1170	1171	1172	1173	1174	1175	1176	1177	1178	1179	1180	1181	1182	1183	1184	1185	1186	1187	1188	1189	1190	1191	1192	1193	1194	1195	1196	1197	1198	1199	1200	1201	1202	1203	1204	1205	1206	1207	1208	1209	1210	1211	1212	1213	1214	1215	1216	1217	1218	1219	1220	1221	1222	1223	1224	1225	1226	1227	1228	1229	1230	1231	1232	1233	1234	1235	1236	1237	1238	1239	1240	1241	1242	1243	1244	1245	1246	1247	1248	1249	1250	1251	1252	1253	1254	1255	1256	1257	1258	1259	1260	1261	1262	1263	1264	1265	1266	1267	1268	1269	1270	1271	1272	1273	1274	1275	1276	1277	1278	1279	1280	1281	1282	1283	1284	1285	1286	1287	1288	1289	1290	1291	1292	1293	1294	1295	1296	1297	1298	1299	1300	1301	1302	1303	1304	1305	1306	1307	1308	1309	1310	1311	1312	1313	1314	1315	1316	1317	1318	1319	1320	1321	1322	1323	1324	1325	1326	1327	1328	1329	1330	1331	1332	1333	1334	1335	1336	1337	1338	1339	1340	1341	1342	1343	1344	1345	1346	1347	1348	1349	1350	1351	1352	1353	1354	1355	1356	1357	1358	1359	1360	1361	1362	1363	1364	1365	1366	1367	1368	1369	1370	1371	1372	1373	1374	1375	1376	1377	1378	1379	1380	1381	1382	1383	1384	1385	1386	1387	1388	1389	1390	1391	1392	1393	1394	1395	1396	1397	1398	1399	1400	1401	1402	1403	1404	1405	1406	1407	1408	1409	1410	1411	1412	1413	1414	1415	1416	1417	1418	1419	1420	1421	1422	1423	1424	1425	1426	1427	1428	1429	1430	1431	1432	1433	1434	1435	1436	1437	1438	1439	1440	1441	1442	1443	1444	1445	1446	1447	1448	1449	1450	1451	1452	1453	1454	1455	1456	1457	1458	1459	1460	1461	1462	1463	1464	1465	1466	1467	1468	1469	1470	1471	1472	1473	1474	1475	1476	1477	1478	1479	1480	1481	1482	1483	1484	1485	1486	1487	1488	1489	1490	1491	1492	1493	1494	1495	1496	1497	1498	1499	1500	1501	1502	1503	1504	1505	1506	1507	1508	1509	1510	1511	1512	1513	1514	1515	1516	1517	1518	1519	1520	1521	1522	1523	1524	1525	1526	1527	1528	1529	1530	1531	1532	1533	1534	1535	1536	1537	1538	1539	1540	1541	1542	1543	1544	1545	1546	1547	1548	1549	1550	1551	1552	1553	1554	1555	1556	1557	1558	1559	1560	1561	1562	1563	1564	1565	1566	1567	1568	15
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	----

26

[illegible]

Traced to Vendor Invoices (NOTE: purchases include 6% GST) Instruments covers 10/1/17 - 10/31/17

1737

GENERAL LEDGER
SHEET NO.

ACCOUNT

4-ur-nic

ACCOUNT NO 261

DATE	DESCRIPTION	DEBIT	CREDIT	BALANCE
11 30	Cash c/c			DR 182 1485
11 30	Revenue advance			DR 203 62445
11 30	[REDACTED]			DR 157 31245
12 31	Foreign Collection			DR 136 27740
12 31	Cash c/c			DR 407 3574
12 31				DR 381 63574
13 1	F.C. Deposit			DR 371 94574
13 1	Cash c/c			DR 397 54574
13 1				DR 107 45925
2 28	Cash c/c			DR 103 14925
3 31	Cash c/c			DR 210 877624
3 31	Cash c/c			DR 338 18973
4 30	Cash c/c			DR 338 65993
4 30	AWB Release Fee			DR 406 63961
5 31	Payables			DR 409 011747
5 31	Cash c/c			DR 443 56039
5 31	AWB Release Fee			DR 465 42639
6 30	Cash c/c			DR 509 54745
6 30				DR 573 21637
7 31	Cash c/c			DR 70 3924161
7 31	Cash c/c			DR 76 52779
7 31	Cash c/c			DR 76 52779
7 31	Cash c/c			DR 77 14 04631
7 31	Cash c/c			DR 77 14 04631
8 31				DR 77 14 04631
8 31				DR 77 14 04631

71-139

70

Case #4

Two domestic businesses were involved in this case, both owned and operated by a husband and wife. One business acted as the importer of record buying health and beauty products from a foreign related party (agent) for resale exclusively to the other business, a wholesaler of these health and beauty products, (i.e. an importer and a wholesaler.) In 1989, the importer reported \$57,726,237 in gross receipts and \$2,663,997 in income.

The importer purportedly sourced most of its overseas purchases through its agent located in Hong Kong. The agent would, in turn, locate manufacturers in a number of countries including Taiwan, Hong Kong, and Japan. Generally, the agent would pay the manufacturers and bill the importer for immediate payment through import invoices that accompanied product shipments. At times, the importer would contact the manufacturers directly and arrange for product shipments. In such instances, the import invoices would be from the manufacturers and the importer would pay them directly. Under both procedures, the price on the import invoice did not account for the alleged full price of the merchandise.

Later, in most cases, the agent would submit a supplemental invoice for the difference between the import invoice amount and the alleged full price for goods previously shipped to the importer. These "supplemental amounts" were booked by the importer to a loan payable account and payments were made periodically against the account balance. As of December 31, 1990, the importer's books showed a balance due to the agent of \$28,280,419. Coincidentally, for the same time period, the wholesaler owed the importer \$27,973,017 for goods received.

The supplemental invoices were not included in the merchandise value declared to Customs at the time of importation. Some time after the fact, the importer voluntarily tendered \$2,229,522 to Customs for back duties and fees owed based on these undeclared supplemental costs.

In reviewing the importer's disclosure, the Customs auditors requested the importer's tax returns for the period concerned. The importer's tax return for 1989, one of the years covered by the importer's disclosure, showed an amount of \$55,062,240 for costs of goods sold. This figure includes the amounts shown on the import invoices and the supplemental invoices.

In other words, the importer used one set of invoices to support its claimed value for Customs purposes and both sets of invoices to support its claimed cost of goods sold for IRS income tax purposes. Apparently, from a Customs perspective, the importer believed that a disclosure would correct the problem since the value for Customs purposes would equal costs of goods sold reported to IRS on its income tax return.

On the other hand, if the import invoices represented actual costs and the supplemental invoices were created for the purpose of increasing cost of goods, then the importer would owe substantially more IRS taxes than Customs duties and fees.

Because of this situation, Customs initiated an investigation of the supplemental invoices. During the course of this investigation, Customs determined these invoices were not factual and has, therefore, referred the case to the IRS. A grand jury investigation is currently being conducted.

INVOICE

No. : [REDACTED]

Date : June 12, 1989

* Sold to : [REDACTED]

Marks & Nos.	Quantity	Description of Goods	Unit price	Amount
		SKIN CARE PRODUCTS	Per pc.	
101 MADE IN JAPAN C/No.1 - 139	10,000 pcs.	[REDACTED] 35g.	¥456.-	¥4,560,000.-

TOTAL	:	10,000 pcs.	F.O.B TOKYO	N.R. ¥4,560,000.-
		=====	=====	=====

"FREIGHT COLLECT"

"JAPANESE ORIGIN"

Shipped from :

to

per

dated

PACKING LIST

Consignee ✓ :

Shipped per : , from to

sailing on or about June 18, 1989

SKIN CARE PRODUCTS

101

MADE IN JAPAN

C/No.1 - 139

Measure.

Carton No.	Description	Quantity	G.W.	Cub.M.
No.1 - 138	: 138 cartons : each carton 72 pcs.		1.104 kg	2.552
	35g	9,936 pcs.	(@ 8kg) (@ 0.01849)	
No.139	: 35g	64 pcs.	7 kg	0.018

TOTAL	: 139 CARTONS	10,000 Pcs.	1.111 kg	2.570
	=====	=====	=====	=====

Shipper

Consignee

Notify Party

Pre-carriage by

Place of Receipt

Ocean Vessel

Via

Port of Loading

Port of Discharge

Place of Delivery

(If pre-printed Address)

B/L No.

NYK 07200019

RECEIVED by the Carrier from the Shipper in apparent good order and condition unless otherwise indicated herein, the Goods, or the container(s) or package(s) said to contain the cargo herein mentioned, to be carried subject to all the terms and conditions provided for on the face and back of this Bill of Lading by the vessel named herein or any substitute at the Carrier's option and/or other means of transport, from the place of receipt or the port of loading to the port of discharge or the place of delivery shown herein and there to be delivered unto order or consignee.

If required by the Carrier, this Bill of Lading duly endorsed must be surrendered in exchange for the Goods or delivery order.

In accepting this Bill of Lading, the Merchant agrees to be bound by all the stipulations, exceptions, terms and conditions on the face and back hereof, whether written, typed, stamped or printed, as fully as if signed by the Merchant, any local custom or privilege to the contrary notwithstanding, and agrees that all agreements or freight engagements far and in connection with the carriage of the Goods are superseded by this Bill of Lading.

In witness whereof, the undersigned, on behalf of Nippon Yusen Kaisha, the Master and the owner of the Vessel, has signed the number of Bill(s) of Lading stated under, all of the same date, one of which being accomplished, the others to stand void.

Container No.

Seal No.; Marks & Nos.

No. of Containers or Packages

Kind of Packages

Description of Goods

Gross Weight

Measurement

(KGS)

(M3)

101
MADE IN JAPAN

139 CARTONS

SKIN CARE PRODUCTS

1.111

2.496

"FREIGHT COLLECT"
TOTAL NUMBER OF CONTAINERS
OR PACKAGES (IN WORDS)

ONE HUNDRED & THIRTY NINE (139) CARTONS
ONLY

FREIGHT & CHARGES

ITEM NO 6173-00

C.A.F.

B.A.F.

DELIVERY CHARGE

CFS CHARGE

Revenue Tons

2.496

Rate

\$166.00

M3

2.496

\$3.00

RT

2.496

\$26.10

RT

US\$ TOTAL

J¥3,570 RT

Prepaid

Collect

\$414.34

\$269.32

\$7.49

\$65.15

US\$756.30

J¥8,911

ICS

B/L

E.S. Rate

Prepaid at

Issued at

Place of Bill of Lading

Dated

DESTINATION

Number of Original Bill(s)

THREE (3)

Date

JUN. 10. 1985

(JSA STANDARD FORM A)

ADMINISTRATIVE MESSAGE REQUEST - AMTS

TELE: [REDACTED] FAXTEL: [REDACTED]

DIRECTORY NO: [REDACTED] AMOUNT: 4,560,000.00 DATE: 05/16/89

G BRANCH/DPT: IBG-IMPORT LETTERS OF CREDIT NUMBER: 0901

PREPARED BY: [REDACTED]

RELEASED BY: [REDACTED]

DATE TO: [REDACTED]

NUMBER: [REDACTED] TYPE: ADM DMS: [REDACTED] TRM: [REDACTED]

F Y AMOUNT: 4,560,000.00 CURR: JAPANESE YEN

PLEASE ADVISE BENEFICIARY THAT WE HAVE ISSUED OUR
IRREVOCABLE DOCUMENTARY CREDIT AS FOLLOWS

LETTER OF CREDIT NO. [REDACTED]

ISSUED IN [REDACTED] MAY 16, 1989

EXPIRES JUN 15, 1989 AT/IN JAPAN

BENEFICIARY: [REDACTED]

APPLICANT: [REDACTED]

AMOUNT: JPY 4,560,000.00
FOUR MILLION FIVE HUNDRED SIXTY THOUSAND AND
00/100 JAPANESE YEN, 100 PERCENT INVOICE VALUE

CREDIT AVAILABLE WITH: FREELY NEGOTIABLE AT ANY BANK

BY: NEGOTIATION, AGAINST PRESENTATION OF THE DOCUMENTS DETAILED
HEREIN AND OF YOUR DRAFT(S) AT SIGHT DRAWN ON [REDACTED]

PARTIAL SHIPMENTS: PROHIBITED

TRANSHIPMENTS: PROHIBITED

SHIPMENT/DISPATCH TAKEN IN CHARGE FROM/AT: FOB CARRIER ANY
JAPANESE HARBOR NOT LATER THAN MAY 31, 1989
FOR TRANSPORTATION TO [REDACTED]

2- SPECIAL CUSTOMS INVOICE IN ORIGINAL AND FOUR COPIES.

3- PACKING LIST IN ORIGINAL AND FOUR COPIES.

APPLICANT COPY

GENERAL LEDGER
12-31-89

092790
Page 15

Entry	Date	Description	Document	J1	Amount	Balance
SALES (CONTINUED)						
138	09-30-89	INVOICE TO [REDACTED]	01765	D	-90255.40	
140	09-30-89	INVOICE TO [REDACTED]	01766	D	-1469518.80	
142	10-31-89	INVOICE TO [REDACTED]	01767	D	-550837.20	
144	10-31-89	INVOICE TO [REDACTED]	01768	D	-349507.20	
146	10-31-89	INVOICE TO [REDACTED]	01769	D	-1332392.40	
148	09-30-89	INVOICE TO [REDACTED]	01770	D	-408558.00	
150	09-30-89	INVOICE TO [REDACTED]	01772	D	-360058.00	
152	10-31-89	INVOICE TO [REDACTED]	01773	D	-897843.22	
154	10-31-89	INVOICE TO [REDACTED]	01774	D	-603439.20	
156	10-31-89	INVOICE TO [REDACTED]	01775	D	-489388.12	
158	10-31-89	INVOICE TO [REDACTED]	01776	D	-218292.40	
160	10-31-89	INVOICE TO [REDACTED]	01777	D	-176260.20	
162	10-31-89	INVOICE TO [REDACTED]	01778	D	-154467.00	
164	10-31-89	INVOICE TO [REDACTED]	01779	D	-152062.60	
166	10-31-89	INVOICE TO [REDACTED]	01780	D	-90255.40	
168	10-31-89	INVOICE TO [REDACTED]	01781	D	-88798.80	
170	11-30-89	INVOICE TO [REDACTED]	01782	D	-1621688.00	
172	11-30-89	INVOICE TO [REDACTED]	01783	D	-1174112.00	
174	11-30-89	INVOICE TO [REDACTED]	01784	D	-812707.20	
176	11-30-89	INVOICE TO [REDACTED]	01785	D	-563247.20	
178	11-30-89	INVOICE TO [REDACTED]	01786	D	-2551825.00	
180	11-30-89	INVOICE TO [REDACTED]	01787	D	-952443.20	
182	11-30-89	INVOICE TO [REDACTED]	01788	D	-603439.20	
184	11-30-89	INVOICE TO [REDACTED]	01789	D	-793572.00	
186	12-31-89	INVOICE TO [REDACTED]	01790	D	-1199296.00	
188	12-31-89	INVOICE TO [REDACTED]	01791	D	-1125600.00	
190	12-31-89	INVOICE TO [REDACTED]	01792	D	-349507.22	
192	12-31-89	INVOICE TO [REDACTED]	01793	D	-574911.20	
194	12-31-89	INVOICE TO [REDACTED]	01794	D	-279488.80	
196	12-31-89	INVOICE TO [REDACTED]	01795	D	-179211.40	
198	12-31-89	INVOICE TO [REDACTED]	01796	D	-184469.00	
200	12-31-89	INVOICE TO [REDACTED]	01797	D	-156644.60	
202	12-31-89	INVOICE TO [REDACTED]	01798	D	-88543.20	
204	12-31-89	INVOICE TO [REDACTED]	01799	D	-1053754.00	
206	12-31-89	INVOICE TO [REDACTED]	01800	D	-838375.00	
342	03-31-89	INVOICE TO [REDACTED]	01712	D	-1594700.00	
344	09-30-89	INVOICE TO [REDACTED]	01771	D	-128458.00	
904	08-09-89	RECEIVED	101	C	-7697.00	
906	12-31-89	1989 RECEIPTS	101	C	-191167.25	
910	12-31-89	RECEIVED	410	C	-266900.00	

TOTALS SALES

-57726237.02 -57726237.0

(510)

COST OF GOODS SOLD

12-31-88	BALANCE FORWARD					0.0
207	01-31-89	INVOICE FROM [REDACTED]	1410	E	367978.58	
209	01-31-89	INVOICE FROM [REDACTED]	1411	E	230157.51	
211	01-31-89	INVOICE FROM [REDACTED]	1412	E	394949.00	

GENERAL LEDGER
12-31-89

Entry	Date	Description	Document	J1	Amount	Balance
COST OF GOODS SOLD (CONTINUED)						
213	01-31-89	INVOICE FROM [REDACTED]	1413	E	591048.68	
215	02-28-89	INVOICE FROM [REDACTED]	1414	E	403657.80	
217	02-28-89	INVOICE FROM [REDACTED]	1415	E	253125.60	
219	02-28-89	INVOICE FROM [REDACTED]	1416	E	97313.87	
221	02-28-89	INVOICE FROM [REDACTED]	1417	E	2237792.34	
223	02-28-89	INVOICE FROM [REDACTED]	1418	E	533589.00	
225	03-31-89	INVOICE FROM [REDACTED]	1419	E	578301.78	
227	03-31-89	INVOICE FROM [REDACTED]	1420	E	328146.60	
229	03-31-89	INVOICE FROM [REDACTED]	1421	E	1848444.95	
231	04-30-89	INVOICE FROM [REDACTED]	1422	E	416037.38	
233	04-30-89	INVOICE FROM [REDACTED]	1423	E	657926.17	
235	04-30-89	INVOICE FROM [REDACTED]	1424	E	643474.86	
237	05-31-89	INVOICE FROM [REDACTED]	1425	E	765599.20	
239	05-31-89	INVOICE FROM [REDACTED]	1426	E	979390.99	
241	05-31-89	INVOICE FROM [REDACTED]	1427	E	615129.39	
243	06-30-89	INVOICE FROM [REDACTED]	1428	E	677720.76	
245	07-30-89	INVOICE FROM [REDACTED]	1429	E	663423.69	
247	07-30-89	INVOICE FROM [REDACTED]	1430	E	471330.40	
249	07-30-89	INVOICE FROM [REDACTED]	1431	E	264196.80	
251	07-30-89	INVOICE FROM [REDACTED]	1432	E	215374.80	
253	07-30-89	INVOICE FROM [REDACTED]	1433	E	268096.00	
255	07-30-89	INVOICE FROM [REDACTED]	1434	E	177025.60	
257	07-30-89	INVOICE FROM [REDACTED]	1435	E	185162.40	
259	07-30-89	INVOICE FROM [REDACTED]	1436	E	185824.40	
261	07-30-89	INVOICE FROM [REDACTED]	1437	E	874999.98	
263	07-30-89	INVOICE FROM [REDACTED]	1438	E	486226.66	
265	07-30-89	INVOICE FROM [REDACTED]	1439	E	463698.42	
267	07-30-89	INVOICE FROM [REDACTED]	1440	E	257799.44	
269	08-30-89	INVOICE FROM [REDACTED]	1441	E	757688.16	
271	08-30-89	INVOICE FROM [REDACTED]	1442	E	772447.35	
273	08-30-89	INVOICE FROM [REDACTED]	1443	E	495617.47	
275	08-30-89	INVOICE FROM [REDACTED]	1444	E	1317114.46	
277	08-30-89	INVOICE FROM [REDACTED]	1445	E	322259.85	
279	08-30-89	INVOICE FROM [REDACTED]	1446	E	250837.80	
281	08-30-89	INVOICE FROM [REDACTED]	1447	E	174067.40	
283	08-30-89	INVOICE FROM [REDACTED]	1448	E	725797.54	
285	08-30-89	INVOICE FROM [REDACTED]	1449	E	708307.92	
287	09-30-89	INVOICE FROM [REDACTED]	1450	E	1737217.11	
289	09-30-89	INVOICE FROM [REDACTED]	1451	E	826196.31	
291	09-30-89	INVOICE FROM [REDACTED]	1452	E	590770.16	
293	09-30-89	INVOICE FROM [REDACTED]	1453	E	277962.60	
295	09-30-89	INVOICE FROM [REDACTED]	1454	E	205541.00	
297	09-30-89	INVOICE FROM [REDACTED]	1455	E	775734.13	
299	09-30-89	INVOICE FROM [REDACTED]	1456	E	424508.07	
301	10-30-89	INVOICE FROM [REDACTED]	1457	E	629901.36	
303	10-30-89	INVOICE FROM [REDACTED]	1458	E	1419242.20	
305	10-30-89	INVOICE FROM [REDACTED]	1459	E	1142108.67	
307	10-30-89	INVOICE FROM [REDACTED]	1460	E	710792.64	
309	10-30-89	INVOICE FROM [REDACTED]	1461	E	499430.25	

GENERAL LEDGER
12-31-89

092790

Entry	Date	Description	Document	JL	Amount	Balance
COST OF GOODS SOLD (CONTINUED)						
311	10-30-89	INVOICE FROM [REDACTED]	1462	E	274890.60	
313	10-30-89	INVOICE FROM [REDACTED]	1463	E	198142.20	
315	10-30-89	INVOICE FROM [REDACTED]	1464	E	768312.53	
317	10-30-89	INVOICE FROM [REDACTED]	1465	E	617678.11	
319	10-30-89	INVOICE FROM [REDACTED]	1466	E	1362786.48	
321	11-30-89	INVOICE FROM [REDACTED]	1467	E	2167105.19	
323	11-30-89	INVOICE FROM [REDACTED]	1468	E	1109993.22	
325	11-30-89	INVOICE FROM [REDACTED]	1469	E	859879.93	
327	12-30-89	INVOICE FROM [REDACTED]	1470	E	1081857.06	
329	12-30-89	INVOICE FROM [REDACTED]	1471	E	1120154.32	
331	12-30-89	INVOICE FROM [REDACTED]	1472	E	608873.98	
333	12-30-89	INVOICE FROM [REDACTED]	1473	E	280819.80	
335	12-30-89	INVOICE FROM [REDACTED]	1474	E	180488.80	
337	12-30-89	INVOICE FROM [REDACTED]	1475	E	438104.48	
339	12-30-89	INVOICE FROM [REDACTED]	1476	E	849524.99	
347	01-23-89	LC	100	A	24085.74	
348	01-25-89	LC	100	A	126195.71	
349	02-24-89	LC	100	A	293689.76	
358	08-16-89	L C	100	A	240000.00	
359	09-28-89	L C	100	A	209703.54	
360	12-13-89	L C	100	A	313657.80	
366	01-23-89	IBG REBIT	103	A	222020.00	
367	01-26-89	IBG REBIT	103	A	100412.50	
368	01-26-89	IBG REBIT	103	A	222020.00	
383	02-09-89	FBG REBIT	103	A	12015.00	
384	03-10-89	[REDACTED]	103-1470	A	19784.00	
385	03-17-89	[REDACTED]	103-1471	A	3000.00	
388	03-02-89	U.S. CUSTOM SERVICE	103-1607	A	2122.93	
417	04-26-89	[REDACTED]	103-1474	A	6760.00	
457	05-05-89	[REDACTED] INV186	103-1475	A	6878.05	
458	07-17-89	[REDACTED]	103-1501	A	6000.00	
478	10-06-89	[REDACTED]	103-XFER	A	1000.00	
493	11-17-89	U.S. CUSTOM SERVICES	103-1778	A	381252.18	
530	03-29-89	REC'D CUSTOMS REF	103	B	-488.09	
532	05-04-89	REC'D - CUSTOMS REF	103	B	-774.74	
533	05-22-89	REC'D - CUSTOMS REF	103	B	-2000.94	
741	01-01-89	GLOVE DEPOSIT	125	C	68000.00	
749	07-21-89	[REDACTED]	103-1504	C	102000.00	
768	12-31-89	COGS - GLOVE INVENT	120	C	39962.00	
775	12-31-89	REVERSE 88 GLOVE PAY	200	C	-435245.88	
813	12-31-89	89 OID	OID	C	-1886552.00	
826	07-05-89	L C LI [REDACTED]	101	A	33573.44	
860	07-25-89	[REDACTED]	103	C	-102000.00	
867	01-01-89	[REDACTED] (REC	248	C	1280000.00	
869	01-01-89	[REDACTED] (REC	248	C	2022860.00	
872	01-01-89	[REDACTED] PROD	248	C	2575334.61	
874	12-31-89	[REDACTED] (PROD	248	C	8365060.17	
880	04-11-89	RECEIVED	103	C	-608.83	
882	10-25-89	RECEIVED	103	C	-117.00	

[REDACTED]
GENERAL LEDGER
12-31-89

092790

Entry	Date	Description	Document	JL	Amount	Balance
COST OF GOODS SOLD (CONTINUED)						
884	12-05-89	RECEIVED	103	C	-2458.45	
908	01-01-89	1988 PAYMENT	248	C	-3009000.00	
TOTALS COST OF GOODS SOLD					\$55962238.69	\$55062238.69

(521) DUES AND PUBLICATIONS

Entry	Date	Description	Document	JL	Amount	Balance
12-31-88 BALANCE FORWARD						0.00
369	01-27-89	[REDACTED]	103-1469	A	29.75	
373	01-29-89	[REDACTED]	103-1566	A	22.95	
375	01-29-89	[REDACTED]	103-1569	A	1287.63	
376	01-29-89	[REDACTED]	103-1573	A	22.95	
413	04-22-89	[REDACTED]	103-1459	A	90.00	
414	04-22-89	[REDACTED]	103-1460	A	180.00	
439	07-29-89	[REDACTED]	103-1483	A	25.90	
444	08-30-89	[REDACTED]	103-1488	A	102.96	
445	08-30-89	[REDACTED]	103-1489	A	25.90	
451	09-25-89	[REDACTED]	103-1509	A	15.10	
452	10-23-89	[REDACTED]	103-1510	A	17.35	
475	09-23-89	[REDACTED]	103-1533	A	102.96	
492	11-16-89	[REDACTED]	103-1777	A	19.60	
499	12-20-89	[REDACTED]	103-1785	A	17.35	
737	01-29-89	[REDACTED]	103-1569	C	-1287.63	
TOTALS DUES AND PUBLICATIONS					\$672.77	\$672.77

(530) INTEREST EXPENSE

Entry	Date	Description	Document	JL	Amount	Balance
12-31-88 BALANCE FORWARD						0.00
399	03-16-89	[REDACTED] (W/H)	103-1619	A	182992.00	
400	03-16-89	[REDACTED] (W/H)	103-1620	A	298334.00	
727	12-31-89	[REDACTED]	210	C	94.49	
729	12-31-89	[REDACTED]	210	C	132.66	
731	12-31-89	[REDACTED]	210	C	2673.87	
733	12-31-89	[REDACTED]	210	C	2610.10	
735	12-31-89	ADJ NOTES PAY TO ACT	210	C	-16.35	
777	10-18-89	IRS (INT 6/86)	103-1751	C	3958.56	
779	12-02-89	IRS (1042)	103-1761	C	23313.58	
781	12-27-89	[REDACTED] (1042-88)	103-1791	C	15003.00	
783	03-16-89	[REDACTED] (W/H)	103-1619	C	-182992.00	
788	03-16-89	[REDACTED] (W/H)	103-1620	C	-298334.00	
798	02-01-89	[REDACTED]	103-1485	C	3204.00	
814	12-31-89	89 OID PD & AMORTIZE	OID	C	464154.00	
820	07-26-89	INTEREST PAID	INT	C	522654.16	
862	05-05-89	IRS (1042)	103-1467	C	2624.00	
864	05-27-89	IRS (1042)	103-1468	C	8696.00	
871	01-01-89	[REDACTED]	248	C	103013.39	
TOTALS INTEREST EXPENSE					\$1152115.46	\$1152115.4

M

INVOICE

Date: JULY 30, 1989

ITEM	DESCRIPTION	QUANTITY	UNIT PRICE	AMOUNT
				UNPAID BALANCE
	B/L HYUNKG00	2703 kg	9.87	26,679.00
	B/L NYKS47203	204 roll	80.30	6,553.86
	B/L NYKS072	10000 pc	8.68	55,472.80
	B/L SEAU9553	20160 pc	2.75	31,651.20
	B/L KELA890	30 roll	80.30	451.13
	B/L NYKS4720	30000 bag	6.00	158,790.00
	B/L NYKS4720	9000 bag	51.00	383,825.70
				663,423.69

Separate official receipt will be given upon receipt of payment

E. & O. E.

AUTHORIZED SIGNATURE

309 11-89

2311-61

Form **120S**Department of the Treasury
Internal Revenue Service**U.S. Income Tax Return for an S Corporation**For the calendar year 1989, or tax year beginning _____ 1989, ending _____ 19____
For Paperwork Reduction Act Notice, see page 1 of separate instructions.

OMB No. 1545-0130

1989

A Date of election as an S corporation

9/15/88

B Business class no. (see separate instructions)

5129

Use IRS label, 5129-010A, please print or type.

Name

Number and street (P.O. box number if mail is not delivered to street address)

City or town, state, and ZIP

C Employer identification number

D Date established

5/5/81

E Total months (see separate instructions)

F Check applicable boxes: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Change of address (4) ☐ Amended return

\$ 57,970,409

G Check the box if the S corporation is subject to the consolidated audit procedures of sections 6541 through 6545 (see instructions before checking this box)

H Enter number of shareholders at the close of the tax year

2

Caution: Include only trade or business income and expenses on lines 1a through 21. See the instructions for more information.

Income	1a	Gross receipts or sales		b	Less returns and allowances		c	Net sales	1a	57,726,237	
	2	Cost of goods sold and/or operations (Schedule A, line 7)							2	55,062,214	
	3	Gross profit (subtract line 2 from line 1c)							3	2,663,997	
	4	Net gain (or loss) from Form 4797, line 18 (see instructions)							4		
	5	Other income (see instructions—attach schedule)							5		
	6	Total income (loss)—Combining lines 3, 4, and 5 and enter here							6	2,663,997	
Deductions (See instructions for limitations.)	7	Compensation of officers							7		
	8a	Salaries and wages			b	Less job credit		c	Salaries and wages	8c	
	9	Repairs							9		
	10	Bad debts (see instructions)							10		
	11	Rents							11		
	12	Taxes							12	1,900	
	13	Interest (see instructions)							13	1,152,114	
	14a	Depreciation (attach Form 4562) (see instructions)							14a	50,526	
	b	Depreciation reported on Schedule A and elsewhere on return							14b	50,526	
	c	Subtract line 14b from line 14a							14c		
15	Depletion (Do not deduct oil and gas depletion. See instructions.)							15			
16	Advertising							16			
17	Pension, profit-sharing, etc. plans							17			
18	Employee benefit programs							18			
19	Other deductions (attach schedule)							19	142,665		
20	Total deductions—Add lines 7 through 19 and enter here							20	1,301,680		
21	Ordinary income (loss) from trade or business activities—Subtract line 20 from line 6							21	1,362,317		
Tax and Payments	22	Tax:									
	a	Excess net passive income tax (attach schedule)							22a		
	b	Tax from Schedule D (Form 1120S)							22b		
	c	Add lines 22a and 22b (see instructions for additional taxes)							22c		
	23	Payments:									
	a	Tax deposited with Form 7004							23a		
b	Credit for Federal tax on fuels (attach Form 4136)							23b			
c	Add lines 23a and 23b							23c			
24	Tax due—If line 22c is larger than line 23c, enter amount owed. See instructions for Paying the Tax							24			
25	Overpayment—If line 23c is larger than line 22c, enter amount overpaid							25			

Please
Sign
Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of [redacted] Date 9-17-90 Title [redacted]Paid
Preparer's
Use OnlyPreparer's
SignatureFirm's name (or
yourself if self-employed)
and address

Date

9/17/90

Check if
self-employed

E.I. No.

b

PP made

Preparer's social security number

[redacted]

Form 1120S (1989)

2311-82

308 11-89

Form 1120S (1-79)

Page 2

Schedule C Cost of Goods Sold and/or Operations (See instructions for Schedule A.)

1	Inventory at beginning of year	1	812,000
2	Purchases	2	55,022,278
3	Cost of labor	3	
4a	Additional section 263A costs (attach schedule) (see instructions)	4a	
4b	Other costs (attach schedule)	4b	
5	Total—Add lines 1 through 4b	5	55,834,278
6	Inventory at end of year	6	772,038
7	Cost of goods sold and/or operations—Subtract line 6 from line 5. Enter here and on line 2, page 1.	7	55,062,240

8a Check all methods used for valuing closing inventory:

(1) ☐ Cost(2) ☒ Lower of cost or market as described in Regulations section 1.471-4(3) ☐ Writedown of "subnormal" goods as described in Regulations section 1.471-2(c)(4) ☐ Other (specify method used and attach explanation) ▶b Check this box if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970). . . . ☐c If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO 86d Do the rules of section 263A (with respect to property produced or acquired for resale) apply to the corporation? . . . ☐ Yes ☒ Noe Was there any change in determining quantities, cost, or valuations between opening and closing inventory? . . . ☐ Yes ☒ No
If "Yes," attach explanation.

Additional Information Required (continued from page 1)

	Yes	No
Did you at the end of the tax year own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? For rules of attribution, see section 267(c). If "Yes," attach a schedule showing: (1) name, address, and employer identification number; and (2) percentage owned.		<input checked="" type="checkbox"/>
Refer to the listing of business activity codes at the end of the instructions for Form 1120S and state your principal:		
(1) Business activity ▶ Wholesale Trade (2) Product or service ▶ Hardware		
Were you a member of a controlled group subject to the provisions of section 1561?	<input checked="" type="checkbox"/>	
At any time during the tax year, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See instructions for exceptions and filing requirements for form TD F 90-22.1.)	<input checked="" type="checkbox"/>	
If "Yes," enter the name of the foreign country ▶		
Were you the grantor of, or transferor to, a foreign trust which existed during the current tax year, whether or not you have any beneficial interest in it? If "Yes," you may have to file Form 3520, 3520-A, or 926.		<input checked="" type="checkbox"/>
During this tax year did you maintain any part of your accounting/tax records on a computerized system?	<input checked="" type="checkbox"/>	
Check method of accounting: (1) <input type="checkbox"/> Cash (2) <input checked="" type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶		
Check this box if the S corporation has filed or is required to file Form 8264, Application for Registration of a Tax Shelter	<input type="checkbox"/>	
Check this box if the corporation issued publicly offered debt instruments with original issue discount. If so, the corporation may have to file Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments.	<input type="checkbox"/>	
If the corporation: (1) filed its election to be an S corporation after December 31, 1986, (2) was a C corporation prior to making the election, and (3) at the beginning of the tax year had net unrealized built-in gain as defined in section 1374(d)(1), enter the net unrealized built-in gain (see instructions) ▶		

Designation of Tax Matters Person (See instructions.)

Enter below the shareholder designated as the tax matters person (TMP) for the tax year of the return:

Name of designated TMP ▶

Identifying number of TMP ▶

Address of designated TMP ▶

Schedule S Shareholders' Shares of Income, Credits, Deductions, Etc. (See instructions.)

(a) Pro rata share items		(b) Total amount
Income (Loss) and Deductions		
1 Ordinary income (loss) from trade or business activities (page 1, line 21)	1	1,352,317
2a Gross income from rental real estate activities	2a	
b Less expenses (attach schedule)	2b	
c Net income (loss) from rental real estate activities	2c	
3a Gross income from other rental activities	3a	87,471
b Less expenses (attach schedule)	3b	70,526
c Net income (loss) from other rental activities	3c	16,945
4 Portfolio income (loss):		
a Interest income	4a	712,701
b Dividend income	4b	
c Royalty income	4c	
d Net short-term capital gain (loss) (Schedule D (Form 1120S))	4d	
e Net long-term capital gain (loss) (Schedule D (Form 1120S))	4e	
f Other portfolio income (loss) (attach schedule)	4f	
5 Net gain (loss) under section 1231 (other than due to casualty or theft) (see instructions)	5	
6 Other income (loss) (attach schedule)	6	
7 Charitable contributions (attach list)	7	25
8 Section 179 expense deduction (attach Form 4562)	8	
9 Expenses related to portfolio income (loss) (attach schedule) (see instructions)	9	
10 Other deductions (attach schedule)	10	
Credits		
11a Credit for alcohol used as a fuel (attach Form 6478)	11a	
b Low-income housing credit: (1) From partnerships to which section 42(f)(3) applies	11b(1)	
(2) Other than on line 11b(1)	11b(2)	
c Qualified rehabilitation expenditures related to rental real estate activities (attach schedule)	11c	
d Credits (other than credits shown on lines 11b and 11c) related to rental real estate activities (attach schedule)	11d	
e Credits related to other rental activities (see instructions) (attach schedule)	11e	
12 Other credits and expenditures (attach schedule)	12	
Investment Interest		
13a Interest expense on investment debts	13a	
b (1) Investment income included on lines 4a through 4f above	13b(1)	712,701
(2) Investment expenses included on line 9 above	13b(2)	
Adjustments and Tax Preference Items		
14a Accelerated depreciation of real property placed in service before 1987	14a	
b Accelerated depreciation of leased personal property placed in service before 1987	14b	
c Depreciation adjustment on property placed in service after 1986	14c	
d Depletion (other than oil and gas)	14d	
e (1) Gross income from oil, gas, or geothermal properties	14e(1)	
(2) Deductions allocable to oil, gas, or geothermal properties	14e(2)	
f Other adjustments and tax preference items (attach schedule)	14f	
Foreign Taxes		
15a Type of income		
b Name of foreign country or U.S. possession	15b	
c Total gross income from sources outside the U.S. (attach schedule)	15c	
d Total applicable deductions and losses (attach schedule)	15d	
e Total foreign taxes (check one): <input type="checkbox"/> Paid <input type="checkbox"/> Accrued	15e	
f Reduction in taxes available for credit (attach schedule)	15f	
g Other foreign tax information (attach schedule)	15g	
Other Items		
16 Total property distributions (including cash) other than dividends reported on line 18 below	16	
17 Other items and amounts not included on lines 1 through 16 above, that are required to be reported separately to shareholders (attach schedule)		
18 Total dividend distributions paid from accumulated earnings and profits contained in other retained earnings (line 27, Schedule L)	18	

2311-64

Form 1120S (1989)

Schedule	Assets	Beginning of tax year		End of tax year	
		(a)	(b)	(c)	(d)
1	Cash		2,516,967		4,950,485
2	Trade notes and accounts receivable	13,347,761		47,229,396	
a	Less allowance for bad debts		13,347,761		47,229,396
3	Inventories		812,000		772,038
4	U.S. government obligations				
5	Tax-exempt securities				
6	Other current assets (attach schedule)				
7	Loans to shareholders		3,793,118		4,129,894
8	Mortgage and real estate loans				
9	Other investments (attach schedule)				
10	Buildings and other depreciable assets	444,007		575,103	
a	Less accumulated depreciation	223,497	220,906	186,590	768,453
11	Depletable assets				
a	Less accumulated depletion				
12	Land (net of any amortization)				
13	Intangible assets (amortizable only)				
a	Less accumulated amortization				
14	Other assets (attach schedule)		159,109		50,109
15	Total assets		20,843,461		57,870,409
Liabilities and Shareholders' Equity					
16	Accounts payable		435,245		11,346,259
17	Mortgages, notes, bonds payable in less than 1 year		55,283		32,330
18	Other current liabilities (attach schedule)		27,403		276,048
19	Loans from shareholders				
20	Mortgages, notes, bonds payable in 1 year or more				
21	Other liabilities (attach schedule)		21,149,747		57,507,163
22	Capital stock		52,797		52,797
23	Paid-in or capital surplus				
24	Accumulated adjustments account	- 561,630		- 4,689,456	
25	Other adjustments account	- 199,065		- 2,542	
26	Shareholders' undistributed taxable income previously taxed				
27	Other retained earnings (see instructions)	- 116,380		7,820	
Check this box if the corporation has subchapter C earnings and profits at the close of the tax year: <input type="checkbox"/> (see instructions)					
28	Total retained earnings per books—Combine amounts on lines 24 through 27, columns (a) and (c) (see instructions)		- 877,015		- 4,684,178
29	Less cost of treasury stock		()		()
30	Total liabilities and shareholders' equity		20,843,461		57,870,409

Schedule M Analysis of Accumulated Adjustments Account, Other Adjustments Account, and Shareholders' Undistributed Taxable Income Previously Taxed (If Schedule L, column (c), amounts for lines 24, 25, or 26 are not the same as corresponding amounts on line 9 of Schedule M, attach a schedule explaining any differences. See instructions.)

	Accumulated adjustments account	Other adjustments account	Shareholders' undistributed taxable income previously taxed
1	Balance at beginning of year	- 561,630	- 199,065
2	Ordinary income from page 1, line 21	1,362,317	
3	Other additions	749,606	196,523
4	Total of lines 1, 2, and 3	1,550,293	
5	Distributions other than dividend distributions	6,238,638	
6	Less from page 1, line 21		
7	Other reductions	1,111	
8	Add lines 5, 6, and 7	6,238,749	
9	Balance at end of tax year—subtract line 8 from line 4	- 4,689,456	- 2,542

(The next page is 2311-1)

SCHEDULE K-1
 (Form 1120S)

Shareholder's Share of Income, Credits, Deductions, Etc.

OMB No. 1545-0130

1989
Department of Treasury
Internal Revenue Service

beginning

 ▶ See separate instructions.
 For calendar year 1989 or tax year
 1989, and ending

19

Shareholder's identifying number ▶

Corporation's identifying number ▶

Shareholder's name, address, and ZIP code

Corporation's name, address, and ZIP code

A Shareholder's percentage of stock ownership for tax year (see instructions for Schedule K-1) ▶

50 %

B Internal Revenue Service Center where corporation filed its return ▶

C (1) Tax shelter registration number (see instructions for Schedule K-1) ▶

(2) Type of tax shelter ▶

D If the shareholder acquired corporate stock after 10/22/86, check here ☐ and enter the shareholder's weighted percentage increase in stock ownership for 1989 (see instructions for Schedule K-1) ▶E If any activity for which income or loss is reported on line 1, 2, or 3, was started or acquired by the corporation after 10/22/86, check here ☐ and enter the date of start up or acquisition in the date space on line 1, 2, or 3 below.

Reminder: If you received a 1987 Schedule K-1 that was for a short year and you chose to report the 1987 amounts over a 4-year period, be sure to include one-fourth of the short year amounts, in addition to the items reported on this Schedule K-1, on the appropriate lines of your 1989 Form 1040 and related schedules.

Cautions: Refer to Shareholder's instructions for Schedule K-1 before entering information from Schedule K-1 on your tax return.

	(a) Pro rata share items	(b) Amount	(c) Form 1040 lines enter the amount in column (b) and
Income (Loss) and Deductions	1 Ordinary income (loss) from trade or business activities. If applicable, enter date asked for in Item E. . . . ▶	1 681,159	See Shareholder's instructions for Schedule K-1 (Form 1120S).
	2 Net income (loss) from rental real estate activities. If applicable, enter date asked for in Item E. . . . ▶	2	
	3 Net income (loss) from other rental activities. If applicable, enter date asked for in Item E. . . . ▶	3 18,453	
	4 Portfolio income (loss):		
	a Interest	4a 356,351	See Sch. B, Part I, line 2
	b Dividends	4b	See Sch. B, Part I, line 4
	c Royalties	4c	See Sch. E, Part I, line 5
	d Net short-term capital gain (loss)	4d	See Sch. D, line 5, col. (f) or (g)
	e Net long-term capital gain (loss)	4e	See Sch. D, line 12, col. (f) or (g)
	f Other portfolio income (loss) (attach schedule)	4f	(Enter on applicable line of your return.)
5 Net gain (loss) under section 1231 (other than due to casualty or theft)	5	(Enter on applicable line of your return.)	
6 Other income (loss) (attach schedule)	6	(Enter on applicable line of your return.)	
7 Charitable contributions	7 13	See Sch. A, line 14 or 15	
8 Section 179 expense deduction (attach schedule)	8	See Shareholder's instructions for Schedule K-1 (Form 1120S).	
9 Expenses related to portfolio income (loss) (attach schedule)	9		
10 Other deductions (attach schedule)	10		
Credits	11a Credit for alcohol used as fuel	11a	Form 6478, line 10
	b Low-income housing credit: (1) From Partnerships to which section 42(c)(3) applies	b(1)	Form 9804, line 5
	(2) Other than on line 11b(1)	b(2)	
	c Qualified rehabilitation expenditures related to rental real estate activities (attach schedule)	11c	See Shareholder's instructions for Schedule K-1 (Form 1120S).
	d Credits (other than credits shown on lines 11b and 11c) related to rental real estate activities (attach schedule)	11d	
e Credits related to other rental activities (see instructions) (attach schedule)	11e		
12 Other credits and expenditures (attach schedule)	12		
Investment Interest	13a Interest expense on investment debts	13a	Form 4952, line 1
	b (1) Investment income included on lines 4a through 4f above	b(1) 356,351	See Shareholder's instructions for Schedule K-1 (Form 1120S).
	(2) Investment expenses included on line 9 above	b(2)	

For Paperwork Reduction Act Notice, see Form 1120S instructions.

Schedule K-1 (Form 1120S) 1989

SCHEDULE K-1

(Form 1120S)

Shareholder's Share of Income, Credits, Deductions, Etc.

OMB No. 1545-0130

1989

Department of the Treasury

Internal Revenue Service

See separate instructions.

For calendar year 1989 or tax year

beginning 1989, and ending 19

Shareholder's identifying number

Corporation's identifying number

Shareholder's name, address, and ZIP code

Corporation's name, address, and ZIP code

A Shareholder's percentage of stock ownership for tax year (see Instructions for Schedule K-1) 90 %

B Internal Revenue Service Center where corporation filed its return

C (1) Tax shelter registration number (see Instructions for Schedule K-1)

(2) Type of tax shelter

D If the shareholder acquired corporate stock after 10/22/86, check here ☐ and enter the shareholder's weighted percentage increase in stock ownership for 1989 (see Instructions for Schedule K-1) %E If any activity for which income or loss is reported on line 1, 2, or 3, was started or acquired by the corporation after 10/22/86, check here ☐ and enter the date of start up or acquisition in the date space on line 1, 2, or 3 below.

Reminder: If you received a 1987 Schedule K-1 that was for a short year and you chose to report the 1987 amounts over a 4-year period, be sure to include one-fourth of the short year amounts, in addition to the items reported on this Schedule K-1, on the appropriate lines of your 1988 Form 1040 and related schedules.

Caution: Refer to Shareholder's Instructions for Schedule K-1 before entering information from this Schedule K-1 on your tax return.

		(a) Pro rata share items	(b) Amount	(c) Form 1040 line enter the amount in column (b) and
Income (Loss) and Deductions	1 Ordinary income (loss) from trade or business activities. If applicable, enter data asked for in Item E.	1	681,158	See Shareholder's Instructions for Schedule K-1 (Form 1120S).
	2 Net income (loss) from rental real estate activities. If applicable, enter data asked for in Item E.	2		
	3 Net income (loss) from other rental activities. If applicable, enter data asked for in Item E.	3	18,452	
	4 Portfolio income (loss):			
	a Interest	4a	356,350	Sch. B, Part I, line 2
	b Dividends	4b		Sch. B, Part II, line 4
	c Royalties	4c		Sch. E, Part I, line 5
	d Net short-term capital gain (loss)	4d		Sch. D, line 5, col. (7) or (g)
	e Net long-term capital gain (loss)	4e		Sch. D, line 12, col. (7) or (g)
	f Other portfolio income (loss) (attach schedule)	4f		(Enter on applicable line of your return.)
5 Net gain (loss) under section 1231 (other than due to casualty or theft)	5		See Shareholder's Instructions for Schedule K-1 (Form 1120S).	
6 Other income (loss) (attach schedule)	6		(Enter on applicable line of your return.)	
7 Charitable contributions	7	12	Sch. A, line 14 or 15	
8 Section 179 expense deduction (attach schedule)	8		See Shareholder's Instructions for Schedule K-1 (Form 1120S).	
9 Expenses related to portfolio income (loss) (attach schedule)	9			
10 Other deductions (attach schedule)	10			
Credits	11a Credit for alcohol used as fuel	11a		Form 6478, line 10
	b Low-income housing credit: (1) From Partnerships to which section 420(X) applies	b(1)		Form 8586, line 3
	(2) Other than on line 11b(1)	b(2)		
	c Qualified rehabilitation expenditures related to rental real estate activities (attach schedule)	11c		See Shareholder's Instructions for Schedule K-1 (Form 1120S).
	d Credits (other than credits shown on lines 11b and 11c) related to rental real estate activities (attach schedule)	11d		
e Credits related to other rental activities (see Instructions) (attach schedule)	11e			
12 Other credits and expenditures (attach schedule)	12			
Investment Interest	13a Interest expense on investment debts	13a		Form 4952, line 1
	b (1) Investment income included on lines 4a through 4f above	b(1)	356,350	See Shareholder's Instructions for Schedule K-1 (Form 1120S).
	(2) Investment expenses included on line 9 above	b(2)		

For Paperwork Reduction Act Notice, see Form 1120S Instructions.

Schedule K-1 (Form 1120S) 1989

Form **4562****Depreciation and Amortization**

OMB No. 1545-0178

Department of the Treasury

Internal Revenue Service

- ▶ See separate instructions.
▶ Attach this form to your return.

1989Attachment
Number **67**

Name (as shown on return)

Business or activity to which this form relates

Part I Depreciation (Use Part III for automobiles, certain other vehicles, computers, and property used for entertainment, recreation, or amusement.)**Section A.—(Election To Expense Depreciable Assets (Section 179))**

1 Maximum dollar limitation	1	\$10,000
2 Total cost of section 179 property placed in service during the tax year (see instructions)	2	
3 Threshold cost of section 179 property before reduction in limitation	3	\$800,000
4 Reduction in limitation (Subtract line 3 from line 2, but do not enter less than 0.)	4	
5 Dollar limitation for tax year (Subtract line 4 from line 1, but do not enter less than 0.)	5	
(a) Description of property	(b) Date placed in service	(c) Cost
6		
7 Listed property—Enter amount from line 28	7	
8 Tentative deduction (Enter the lesser of: (a) line 6 plus line 7; or (b) line 5.)	8	
9 Taxable income limitation (Enter the lesser of: (a) Taxable income; or (b) line 8) (see instructions)	9	
10 Carryover of disallowed deduction from 1988 (see instructions)	10	
11 Section 179 expense deduction (Enter the lesser of: (a) line 8 plus line 10; or (b) line 9.)	11	
12 Carryover of disallowed deduction to 1990 (Add lines 8 and 10, less line 11.)	▶ 12	

Section B.—MACRS Depreciation

(a) Classification of property	(b) Date placed in service	(c) Basis for depreciation (disallow any only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
13 General Depreciation System (GDS) (see instructions): For assets placed in service ONLY during tax year beginning in 1989						
a 3-year property						
b 5-year property						
c 7-year property						
d 10-year property						
e 15-year property						
f 20-year property						
g Residential rental property			27.5 yrs.	HM	S/L	
			27.5 yrs.	HM	S/L	
h Nonresidential real property			31.5 yrs.	HM	S/L	
			31.5 yrs.	HM	S/L	
14 Alternative Depreciation System (ADS) (see instructions): For assets placed in service ONLY during tax year beginning in 1989						
a Class life					S/L	
b 12-year			12 yrs.		S/L	
c 40-year			40 yrs.	ND	S/L	
15 Listed property—Enter amount from line 27						50,526
16 GDS and ADS deductions for assets placed in service before 1989 (see instructions)						

Section C.—ACRS and/or Other Depreciation

17 Property subject to section 168(f)(1) election (see instructions)	17	
18 ACRS and/or other depreciation (see instructions)	18	

Section D.—Summary

19 Total (Add deductions on line 11 and lines 13 through 18.) Enter here and on the appropriate line of your return (Partnerships and S corporations—see instructions)	19	50,526
20 For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs (see instructions)	20	

For Paperwork Reduction Act Notice, see page 8 of the separate instructions.

Form 4562 (1989)

Part II Amortization

(a) Description of property	(b) Date amortization begins	(c) Cost or other basis	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year
21 Amortization for property placed in service only during last year beginning in 1989					
22 Amortization for property placed in service before 1989					
23 Total. Enter here and on "Other Deductions" or "Other Expenses" line of your return					23

Part III Listed Property.—Automobiles, Certain Other Vehicles, Computers, and Property Used for Entertainment, Recreation, or Amusement

If you are using the standard mileage rate or deducting vehicle lease expense, complete columns (a) through (f) of Section A, all of Section B, and Section C if applicable.

Section A.—Depreciation (Caution: See instructions for limitations for automobiles.)

24a. Do you have evidence to support the business use claimed? <input type="checkbox"/> Yes <input type="checkbox"/> No		24b. If "Yes," is the evidence written? <input type="checkbox"/> Yes <input type="checkbox"/> No						
(a) Type of property (all vehicles first)	(b) Date placed in service	(c) Business use percentage (10)	(d) Cost or other basis (see instructions for leased property)	(e) Basis for depreciation—business use only	(f) Recovery period	(g) Method	(h) Depreciation deduction	(i) Original section 179 cost
25 Property used more than 50% in a trade or business:								
Automobiles	Various	100	575,103				50,526	
26 Property used 50% or less in a trade or business:								
27 Total (Enter here and on line 15, page 1.)								
28 Total (Enter here and on line 7, page 1.)								

Section B.—Information Regarding Use of Vehicles—If you deduct expenses for vehicles:

- Always complete this section for vehicles used by a sole proprietor, partner, or other "more than 5% owner," or related person.
If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles.

	(a)		(b)		(c)		(d)		(e)		(f)	
	Vehicle 1	Vehicle 2	Vehicle 3	Vehicle 4	Vehicle 5	Vehicle 6						
29 Total business miles driven during the year (DO NOT include commuting miles)												
30 Total commuting miles driven during the year												
31 Total other personal (noncommuting) miles driven												
32 Total miles driven during the year (Add lines 29 through 31)												
33 Was the vehicle available for personal use during off-duty hours?	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
34 Was the vehicle used primarily by a more than 5% owner or related person?												
35 Is another vehicle available for personal use?												

Section C.—Questions for Employers Who Provide Vehicles for Use by Their Employees

(Answer these questions to determine if you meet an exception to completing Section B. Note: Section B must always be completed for vehicles used by sole proprietors, partners, or other more than 5% owners or related persons.)

	Yes	No
36 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees?		
37 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? (See instructions for vehicles used by corporate officers, directors, or 1% or more owners.)		
38 Do you treat all use of vehicles by employees as personal use?		
39 Do you provide more than five vehicles to your employees and retain the information received from your employees concerning the use of the vehicles?		
40 Do you meet the requirements concerning qualified automobile demonstration use (see instructions)?		

Note: If your answer to 36, 37, 38, 39, or 40 is "Yes," you need not complete Section B for the covered vehicles.

Form 5472 (Rev. December 1987)	Information Return of a Foreign Owned Corporation (Under Section 6038A of the Internal Revenue Code)	OMB No. 1545-0020 Expires 11-30-90
Department of the Treasury Internal Revenue Service		
For tax year of the reporting corporation beginning . . . 18 . . . and ending . . . 19 . . .		
Part I Reporting Corporation (All information must be written in the English language)		
1a Name of reporting corporation		b Identifying number
Enter how many Forms 5472 were filed for the taxable year		
Part II Related Person (All information must be written in the English language)		
1 Name and address of related person	2 Countries of residence	
3 Type of relationship—Check applicable box: Controlled by reporting corporation <input type="checkbox"/> Controls reporting corporation <input type="checkbox"/> Common control <input type="checkbox"/> Other related person <input checked="" type="checkbox"/>		
4a Principal business activity	b Business code number	c Principal cities and countries where business is conducted
Exporter	5129	

Part III Monetary Transactions Between Reporting Corporations and Related Foreign Person (All amounts must be stated in U.S. dollars) (Reasonable estimates may be used—See instructions)		
1 Sales of stock in trade	1	
2 Sales of tangible property other than stock in trade	2	
3 Rents and royalties received (for other than intangible property rights)	3	
4 Sales, leases, licenseings, etc., of intangible property rights (e.g., patents, trademarks, secret formulas)	4	
5 Consideration received for technical, managerial, engineering, construction, scientific, or like services	5	
6 Commissions received	6	
7 Amounts borrowed a Beginning Balance <u>21,205,260</u> b Ending Balance >	7	52,280,419
8 Interest received	8	
9 Premiums received for insurance or reinsurance	9	
10 Total (Combine amounts on lines 1 through 9)	10	52,280,419
11 Purchases of stock in trade	11	43,601,489
12 Purchases of tangible property other than stock in trade	12	
13 Rents and royalties paid (for other than intangible property rights)	13	
14 Purchases, leases, licenseings, etc., of intangible property (e.g., patents, trademarks, secret formulas)	14	
15 Consideration paid for technical, managerial, engineering, construction, scientific, or like services	15	
16 Commissions paid	16	
17 Amounts loaned a Beginning Balance _____ b Ending Balance >	17	522,654
18 Interest paid	18	
19 Premiums paid for insurance or reinsurance	19	
20 Total (Combine amounts on lines 11 through 19)	20	44,324,143

Part IV Describe All Nonmonetary and Nonconsideration Transactions Between the Reporting Corporation and the Related Foreign Person (Attach separate sheet) (See instructions)

Instructions

(References are to the Internal Revenue Code unless otherwise noted.)

Paperwork Reduction Act Notice.—We ask for this information to carry out the U.S. Internal Revenue laws. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Purpose of Form

Form 5472 is an annual information return that is used for reporting the activities between certain foreign owned corporations and all related parties.

For purposes of Form 5472, a "related party" is any party related to the reporting corporation within the meaning of section 267(b) or section 707(b)(1). The term includes any other related person who is defined in section 482.

New Use for Form 5472.—The Tax Reform Act of 1986 revised Code section 6038A to require that a foreign controlled U.S. corporation and a foreign controlled foreign corporation engaged in a U.S. trade or business report transactions with all foreign related parties.

Who Must File

(1) Domestic or Foreign Corporations.—Domestic corporations or foreign

corporations that are engaged in a trade or business in the United States and that are "controlled" by a foreign person must file Form 5472 if the corporation had any reportable transactions with a related person.

However, a corporation is not required to

file Form 5472 if during the tax year:

- It had no gross income (determined without reference to losses) subject to United States taxation, other than withholding tax under section 881, or
- Its sole trade or business in the United States is banking, financing, or similar business (as defined in regulations section 1.864-4(c)(5)(i)), or

1989

OTHER DEDUCTIONS: .

DUES AND PUBLICATIONS	\$ 673
BANK CHARGES	353
AUTO AND TRUCK	9,236
PROFESSIONAL EXPENSES	83,455
UTILITIES	15,214
MISCELLANEOUS	34,591
MEALS	<u>4,143</u>
	<u>\$ 147,665</u>

RENTAL EXPENSES:

DEPRECIATION:	<u>\$ 50,526</u>
---------------	------------------

OTHER ASSETS:

	BEG OF <u>YEAR</u>	END OF <u>YEAR</u>
DEPOSITS	\$ 68,000	\$
LOANS	<u>85,109</u>	<u>90,109</u>
	<u>\$ 153,109</u>	<u>\$ 90,109</u>

OTHER CURRENT LIABILITIES:

INCOME TAX PAYABLE	\$ 27,403	\$ - 45,685
W/H FED INCOME TAX		<u>121,733</u>
	<u>\$ 27,403</u>	<u>\$ 276,048</u>

Mr. FORD. Mr. Weise, the scope of the taxpayer's information that would be useful to Customs, we have seen how information on the face of a tax return can be used very effectively by Customs.

Is there any other taxpayer information, such as the IRS audit reports and examination results that would be of use to Customs?

Mr. WEISE. Mr. Chairman, obviously if we want to do the best job possible, we would want to get as much information as we possibly can. I think in many instances the audits that the Internal Revenue Service does would be tremendously useful to the Customs Service in carrying out our mission.

Mr. FORD. How do you envision Customs using each of those types of taxpayer's information?

Mr. WEISE. Basically, Mr. Chairman, as I indicated in the examples that I have described, what we attempt to do when we get the Internal Revenue information is use it as the corroboration for the information that was put forth by the importer on his Customs declaration.

We go through the kind of exercise that I have just described in the handout to try to ensure that both the Internal Revenue Service and the Customs Service are getting the same raw data. We obviously have different laws that we are applying and different calculations that are made from that raw data, but the basic usefulness of this information would be for us to insure that there is a corroboration and that we are not seeing different numbers being provided as raw data to the Internal Revenue Service than is provided to the Customs Service to do the calculation that we each need to do.

Mr. FORD. Thank you.

How many requests for tax returns in the course of a year do you think Customs would request as it relates to taxpayers' information? Do you have any idea what type of requests would be made annually?

Mr. WEISE. Mr. Chairman, I am glad you asked that question. I think it relates to the concern that Mr. Hancock expressed in his opening statement, whether we would use this as a fishing expedition just to try to get information on an ongoing basis.

Our intention, if we were to have access to this information, would be to only request this information as part of the comprehensive national audits that we do, and basically we do roughly at a maximum, we do 200 of those a year under current resources.

At times, depending upon the magnitude of those, there have been as few as 20. So it would be, at least in the near term, assuming we are not going to get significant additional resources thrust upon us, and it doesn't look like in this economic environment that is going to happen, I would say at the outside it would be roughly around 200 a year. It could be as little as 20 or 30 a year.

But it wouldn't be a wholesale fishing expedition for every importer that the Customs Service deals with.

Mr. FORD. What do we need to do? I know 6103 stops IRS from sharing information, whatever, with Customs. What would we need to do to repeal 6103 or what kind of relationship does the full committee on Ways and Means need to do?

Mr. WEISE. One thing I must point out, Mr. Chairman, and I want to make sure this is clear in the record, we have been work-

ing very well with the Internal Revenue Service in a cooperative way to try to have a good exchange of information.

As you point out, section——

Mr. FORD. They can't do that really.

Mr. WEISE [continuing]. 6103 prohibits the Internal Revenue Service from giving us the direct access to income tax forms. This is something that, as I said, they are not permitted to do.

Within the confines of that, we have tried to share, you know, additional information that is not the tax forms themselves, and I think we have been successful in providing some good data to the Internal Revenue Service.

To the extent they can, they have been cooperating with us, but their hands have been tied and clearly it would seem that if they are going to be able to take it the next step forward so that we could, as a matter of law, not just on a voluntary basis, have access to this kind of information, it would require that change in statute such as 6103.

Mr. FORD. You know, three of the four cases, examples contained in your testimony that you talked about are subchapter S corporations and I think one is a sole proprietorship.

Are these typical companies we are talking about, the subchapter S and sole proprietorship?

Mr. WEISE. We actually conduct these national audits on a wide spectrum of companies, small companies, medium-sized companies, and large companies. So I think——

Mr. FORD. But all four of the ones we went over today are examples contained in your handout?

Mr. WEISE. We actually have cases, unfortunately, in terms of trying to give you illustrations of some larger cases, we had some internal impediments, such as ongoing grand jury investigations and things of that nature. These are illustrative of a larger category of companies that are actually under these types of audits where this information would be useful. I wouldn't say that they would be limited to some of these smaller companies that are illustrated here.

Mr. FORD. Has Customs been successful in obtaining and using tax return information and auditing any larger multinational businesses?

Mr. WEISE. Yes, Mr. Chairman, we have had some success.

Mr. FORD. I know you mentioned some might have been under investigation, grand jury investigations, but what about some of the larger multinational companies?

Mr. WEISE. There is at least one instance that I am aware of and I will ask my colleagues to chime in if they want to provide any additional information, where we have had some success in that.

That is one of the ones I alluded to that is I believe under the grand jury now that precludes us from putting a lot of information, specific information before this subcommittee at this point.

Mr. FORD. Outside of the one that might be the one under investigation——

Mr. INCH. I am aware of a couple of others over the years that we have seen where voluntarily, again, the taxpayer provided the information and we were able to confirm representations made to Customs based on that.

Mr. FORD. I am sure that is going to get tougher and tougher. Coming here today and exposing these four companies and all of this information, I am sure you are going to have some type of a working relationship and access to the Internal Revenue. I am not sure they are just going to voluntarily pass that information over to you.

Mr. WEISE. Mr. Chairman, I think that is the irony of this appearance today. I know that it is obviously a very constructive discussion that we are having here. Our concern is, since it is voluntary, I think the point that you are alluding to too is perhaps the larger companies are more sophisticated, have a whole bank of auditors and attorneys who know full well that this is not mandatory to be provided to us.

So we do perhaps in the overall scheme of things have a more difficult time getting it from some of those large organizations, but we have had examples where they have provided it voluntarily. But because it is voluntary and because of the fact that this is going to get a little more public notoriety now, it is possible that the short-term effect of these hearings may well be that we will see fewer income tax forms shared with us from even medium and smaller sized companies because it is clear that this is not required. It is not mandated by law.

It is a voluntary submission that occurs now, and that is a concern that we have.

Mr. FORD. Do you anticipate the tax information being as relevant to the multinationals as we have talked about today in these cases, like the subchapter S and the sole proprietor?

Mr. WEISE. Absolutely.

Mr. FORD. You do?

Mr. WEISE. As a matter of fact, if I could just followup, it is the multinational companies that have, in many cases, the inter-relationship, where they have the transfer pricing that is occurring that on its face is just a bookkeeping transfer. It is actually not a purchase at arm's length, so I think there it is all the more important to be able to have access to information so we can insure that the same data is being provided for tax purposes as well as Customs' purposes.

Mr. FORD. Do you have any concerns with respect to advanced pricing agreements negotiated by the Internal Revenue Service?

Mr. WEISE. Yes, Mr. Chairman, we do have some concern because we are running into some situations recently with companies where we, as I said earlier, we have a different mandate in terms of the calculation of the appraised value for purposes of Customs' collection of duties than the Internal Revenue Service does for collection of tax, and we are running into specific examples of cases where we feel that this agreement that has been entered into with the Internal Revenue Service is being held up to us as saying, this is binding, even though it is not the kind of information that we need for Customs' purposes, and that has been a bit of a problem for us that is developing.

Mr. FORD. So it has been a bit of problem.

Mr. WEISE. Yes, it has.

Mr. FORD. Do you think Customs should be a party to these negotiations along with the Internal Revenue?

Mr. WEISE. From an a Customs' perspective, it would improve our operations if we had that opportunity.

Mr. FORD. What about IRS? What would they welcome—

Mr. WEISE. I would presume they would prefer us not to be in the room.

Mr. FORD. Have you talked with them in reference—

Mr. WEISE. We have had some discussion. The only thing I should point out, even though I have only been on the job for 5 weeks, that the Commissioner of Internal Revenue Service and I have discussed this issue on a couple of occasions, not specifically with regard to these type of agreements, but the entire issue, and she feels as I do that we can work together to try to do more to carry out our respective responsibilities, and I think she is receptive to working with us and working with this committee to see if we can't make the necessary changes in law to change this information.

But I have not had a discussion on this particular issue with her as of yet.

Mr. FORD. But you are seeking some relief from Congress in this area, is that—

Mr. WEISE. Well, the Customs Service obviously is a team player, part of the administration. There is not an official administration position to seek that change from Congress.

We have been asked to come here to describe our ongoing audit procedures and how tax information has been helpful to us. We are being very candid in describing that. And clearly if we were in charge of the Government, perhaps we would seek such a legislative change, but I am not the spokesperson for the administration on this issue.

I am here speaking very candidly as the Commissioner of Customs. I have been candid in saying this information that we have gotten voluntarily has been tremendously helpful to us. If we could get it in more instances, it would be even more helpful to us. The law precludes that from happening so I will leave it at that.

Mr. FORD. What sort of procedure would you envision establishing that Customs to maximize the timely use of taxpayer's information by Customs? Have you sought out what type of timely fashion?

Mr. WEISE. Well, I may ask Bill to comment further on this, but let me say as a preliminary response to your question, the issue that you raised, and it is a good one, is that we basically, as I described in my testimony, operate on a transaction-by-transaction basis and within 10 days after importation have to proceed on valuing merchandise, whereas the Internal Revenue Service operates on a periodic basis and often the two time periods don't mesh very well.

So that is an issue that we need to address. We do however, even though we are by law supposed to liquidate entries within a 1-year period, we do have the opportunity to suspend the liquidation for a period of up to 4 years when we have an ongoing investigation or audit.

We also have the opportunity to go back and reopen investigations if we discover from an audit that there is an allegation of fraud that is involved in the transaction which in some of the illustrations we have here today as well.

So we have given a good deal of thought to this and we feel there are ways we can try to mesh the two systems to go together so it would be very useful to us even though we operate on different time frames.

Mr. FORD. Would you need to routinely suspend liquidation of the entries pending success of the importer's next tax return?

Mr. WEISE. I don't think we would have to routinely do it. I think in some cases it would be in our interest to do it. If we find from preliminary investigation in the audit that there looks like there is a problem here, we may in those cases want to suspend.

But I think you will find if we were able to have access to this information, you are going to find in most instances we are probably going to find a clear corroboration of the data that was provided to Customs from the Internal Revenue Service which would lead us to conclude that there is not a need to suspend liquidation of entries.

Mr. FORD. Just so I am clear, how would you have access to—how do you get access to this information? They are not going to voluntarily give you this.

At some given point, it is going to be cut off. So tell me. I don't know whether this is an administration's position yet, but I mean, you want access to it. How do you get access to it?

Mr. WEISE. Right now, believe it or not, Mr. Chairman, when we begin an audit process, there is a standard list of questions when we ask—when we are doing this comprehensive, what we call a national audit. We have a standard list of questions seeking information.

One of our questions is seeking some copies of the income tax forms for the particular time frame we are looking at. In roughly, would you say, half the cases, importers respond to the question by submitting a copy of their tax form. In at least half the cases, they ignore that question or they tell us, hell no.

Mr. FORD. How would Customs be able to use the taxpayer information developed by IRS during an IRS audit if Customs had access to it? I mean—

Mr. WEISE. Once again, I think we could use it in a similar fashion to the return information itself to corroborate the data and the information that has been provided to the Customs Service, and perhaps through the course of looking at an audit, we would see some trends, you know, Internal Revenue audit, some trends that would alert us to some differences between what was provided to the Internal Revenue Service and what was actually provided to Customs.

I don't know, Bill, if you want to expand upon that one.

Mr. INCH. Just to add to it, in some of our past experience, we have seen the way companies handle IRS audits in terms of their books and records from 1 year to the next year sort of remains somewhat consistent.

Mr. BANKS. I would also mention that there was legislation that has been passed previously that provided that there would be the same data, same value information provided to both IRS and Customs, had to be on the same basis, in order to be able to validate that it was indeed the same value level, we would need to be able

to do this comparison between the Customs' data and the tax return data.

Mr. FORD. Does Customs have access to the books and records of overseas suppliers of goods that are imported into the United States? Do you have any access at all to that?

Mr. WEISE. Mr. Chairman, we do not have direct access. What we have under our laws is access to importers' books and records and—and any books and records related to the import transaction.

So what we often need to do is seek, through the importer, to get the information from the foreign manufacturer or supplier. There are times when the importer is able to provide that to us. There are other times when he is not able to provide that to us and we have no direct legal recourse against foreign entities.

Mr. FORD. That information is difficult to obtain?

Mr. WEISE. Yes, it is.

Mr. FORD. Why is it so difficult to obtain?

Mr. WEISE. Mainly, as I said before, we have no legal jurisdiction over foreign entities. We can only proceed against importers, and what we need to do is ask——

Mr. FORD. Which makes it difficult for you to know the ownership and all, right?

Mr. WEISE. It does, yes, Mr. Chairman.

Mr. FORD. Under what circumstances with regards to books and Customs, how often has Customs audited the books and records of these overseas suppliers? I mean, do you have any records to show how often you do it?

Mr. WEISE. We have conducted—this is an estimate obviously. Foreign site visits and about 70 audits since regulatory audit began in 1974. It is typical these are related. We are going into foreign companies as a result of an investigation of an importer. Whenever we do this, we are doing it with the permission of the foreign company.

We do not have legal recourse to force ourselves into that but in many instances, the foreign entities have cooperated with us on audits relating to a particular importer.

Mr. FORD. What have the experiences been like when you audit these——

Mr. WEISE. Bill, you want to——

Mr. INCH. Sort of a full range of full cooperation in terms of access both to books and records and to individuals to explain those books and records to, as you can probably imagine, a more difficult scenario when you are in countries with language difficulties where the books and records need to be interpreted, where conversations need to be interpreted, where—particularly down with the working level people that are an auditor deals with, that can be very difficult, time consuming.

It is monetarily constrained by the amount of time you can spend in an overseas situation. We don't have an unlimited budget and those are some of the difficulties.

Mr. BANKS. Mr. Chairman, if I could add something on that as well. Those 70 visits were outside North America. We have done a lot more visits within Canada and Mexico as part of the Free Trade Agreement, checks and that sort of thing, and those are

probably our most successful overseas audits with Canada and Mexico.

The results from audits outside North America have been very mixed in terms of our success.

Mr. FORD. What legal protections are provided by Customs' law for the protection of sensitive information contained by Customs for the importers?

Mr. WEISE. We are covered by the Bank Secrecy Act and we do provide confidential status to business, confidential information, as indicated in our sharing of data with this subcommittee, we have—

Mr. FORD. Does it apply to the tax returns as well obtained by Customs?

Mr. WEISE. I am sorry, Trade Secrets Act.

Mr. FORD. Does it apply to the tax returns as well?

Mr. WEISE. Well, the tax returns, we also feel in addition to the Trade Secrets Act, that section 6103, which applies to the Internal Revenue Service handling of tax returns, would apply to the Customs Service as well if indeed they were provided to us voluntarily.

So even though we do not have under 6103 a right to get them, if we do receive them, we are governed by the same constraints that the Internal Revenue Service is in terms of maintaining the secrecy of those.

Mr. FORD. What policies and procedures does Customs have in place to protect sensitive information? I know you have said about what is protected under the law. But what do you have set in place at Customs to guarantee that that protection of privacy on sensitive documents—

Mr. WEISE. We have implemented several procedural safeguards to protect information. We have—office access is restricted, confidential business information is locked up for the evening, computer security is observed and the use of locking file cabinets is also required.

And files are conspicuously marked. Confidential business information and we are continually reminded, our staffs, to be cognizant of all of these security procedures. We have had not had any instances in my recollection that has been brought to my attention of any instances where we have allowed for such information, sensitive information, to be disclosed.

So I think we have an excellent track record there, Mr. Chairman.

Mr. FORD. How many of the 10 million formal entries filed with the Customs annually are reviewed by import specialists?

Mr. WEISE. Approximately one-half.

Mr. FORD. Half? How much time can an import specialist spend on each one of these entries, Commissioner?

Mr. WEISE. This is, Mr. Chairman, one of the difficulties we face. We have, over the course of the last decade, seen the magnitude of increase in trade that is just tremendous, whereas we have been having, if anything, a—maintaining an existing level of resources, so there is not a lot of time that is available on an entry-by-entry basis.

It has required us to do some selective targeting. It is one of the reasons we have tried to get the Customs Modernization Act en-

acted into law to allow us to operate more efficiently, effectively using computer techniques, but on the basis of our average, very little time is spent with each individual entry.

Some—some entries that we have targeted as high risk, we would spend perhaps a long period but others, very little time or no time at all. So it ranges.

Mr. FORD. What can an import specialist do to confirm the value claimed by importers on this entry document which is probably one of the major problems that you are faced with? What can that specialist do to improve that?

Mr. WEISE. Mr. Chairman, I started my career as an import specialist in the Port of Baltimore, so I am coming back home to Customs, but things have changed a lot in the past 20 years in the way an import specialist would proceed with that.

The basic thing you want to do, you have presented to you as an import specialist an entry summary which summarizes the information and within that, you have an invoice, and what you need to do is to try to reach out to the importer and to—through that importer, the manufacturer to try to follow up with as much corroborating information and data as you can to make sure that that invoice is based on the actual transaction and the facts of the case. That is the basic process.

You know, in the initial wave, it is the specialist doing it. Once the import specialist has passed on it, ultimately it is the kind of thing that the regulatory auditors on a post facto basis would look at it in far more detail.

That is when they would begin to look at IRS forms. The specialist would not never seek that information. We would just get corroborating, substantiating. Documentation. We look at the bill of lading on the shipment and other information such as that to see if we can give a preliminary assessment that this seems to be a good value.

We would also compare it with other transactions of comparable companies on similar products to see if it looks like it fits within the expected range of what the transaction price should be for that type of product from that country.

Mr. FORD. How many audits does Customs perform annually?

Mr. WEISE. The total audits, as I indicated, is more than 600, 600 to 800, but the actual national audits where it is a comprehensive audit of one company for the entire length of a year or more—

Mr. FORD. What about viable audit targets by Customs? Is that in the 600—

Mr. WEISE. That would be the total. There are all kinds of different audits. Some are targeted on specific narrow issues, but a total of 600 to 800 and 200 or less of which would be the comprehensive importer national audit that I alluded to earlier.

Mr. FORD. And how many—was it, did I see in your testimony, somewhere of about 1,200 of these auditors in Customs?

Mr. WEISE. No, significantly less than that, 360.

Mr. FORD. Where did I read the 1,200?

Mr. INCH. That was the import specialists.

Mr. WEISE. I would like to have 1,200 auditors.

Mr. FORD. Well, you need to talk to Mr. Gibbons about that.

All right, at this time the Chair is going to recognize Mr. Houghton.

Mr. HOUGHTON. Thank you, Mr. Chairman.

Let me just go quickly to several points. First of all, you want information sharing and the bottom line is you want exclusion from 6103 so you can get that; is that right?

Mr. WEISE. I think that would be very useful to the mission of the Customs Service.

Mr. HOUGHTON. But if you left here today, walk out of this room and said mission accomplished, what would it be?

Mr. WEISE. It would be that the Customs Service would have access to all necessary tax information to corroborate data provided to it on imports on our national audits.

Mr. HOUGHTON. That is a much fuller sentence that I would have said, but anyway, you want to be able to be excluded from the 6103 code.

Mr. WEISE. That would certainly accomplish—

Mr. HOUGHTON. OK. Now, I have got several questions here and you can answer them I think quickly.

First of all, does the Treasury Department support this thing?

Mr. WEISE. That is why I think I am being somewhat cautious because at this point I do not—I am not saying I believe. I know that there is not an official Treasury Department position on this issue.

So I am a little uncomfortable when you ask me what I want to accomplish and walk out the store with because I am a member of the Treasury team. It is an issue that the new Internal Revenue Service Commissioner and I have discussed briefly.

I think we want to work together as two bureaus of the Treasury Department with the department and this committee to come up with a recommendation that would accomplish what we need to accomplish. But at this point, we do not have an official Treasury position.

Mr. HOUGHTON. They don't support that.

Mr. WEISE. At this point, there is no official position that I am aware of.

Mr. HOUGHTON. I see, OK. Now, what will be required in their mind to support your position?

Mr. WEISE. Again, because we have not—I have been on the job 5 weeks, as I indicated. I have had preliminary discussions with the Internal Revenue Service Commissioner. I have not had a discussion with the Treasury Department on this issue. I would hope in the aftermath of this hearing, that I would have that opportunity, so I cannot answer directly.

Perhaps some of the others who had prior discussions with the Treasury Department could respond, but we do have a new administration so I am not sure how relevant that will be.

Mr. BANKS. I think that the Treasury Department and the Internal Revenue Service would like to explore other options available too. There are things that you can do other than amending 6103.

Another possibility is to just provide Customs access that companies would have to provide tax return information during a Customs audit. So it would be actually supplied by the companies

themselves as opposed to sharing—you know, going into IRS-type records.

There are some alternative ways that this issue could perhaps be—

Mr. HOUGHTON. There are alternative technical ways, but the end result would be what you want in terms of this information sharing?

Mr. BANKS. Yes, sir. Yes, sir.

Mr. HOUGHTON. Are they worried at all about safeguards.

Mr. BANKS. Sure, yes.

Mr. HOUGHTON. Have you got a good story to tell them about not to worry about safeguards?

Mr. BANKS. We have had a couple of problems in the past. We think that we have corrected those issues, that we think we have got a good story to tell, yes, sir.

Mr. HOUGHTON. Let's talk about the money. Big set of adjustments you are talking about. How much money do you envisage would come into the Federal Treasury because of opening up the information?

Mr. WEISE. That is obviously a difficult one. Ask Bill. You want to try Bill.

Mr. HOUGHTON. A dollar, \$100 billion.

Mr. BANKS. You know, we collect over \$550,000 per auditor per year is what we collected in 1992. You know, with half of the cases, we did receive tax return information. It has got no where to go but up.

We certainly don't pay them that much money. It is a revenue-producing issue.

Mr. HOUGHTON. Is this the budget session to try to get more auditors?

Mr. BANKS. No, sir. No, sir. I am just trying to describe how effective they are—

Mr. HOUGHTON. I didn't know there was a different agenda going on here.

Mr. BANKS. No, sir. No, sir.

Mr. HOUGHTON. Seriously, what are you talking about in terms of money?

Mr. INCH. To add to Sam's comment, I think it is difficult, but as the Commissioner indicated in his testimony, with the level of resources that we have, we haven't audited on a cyclical basis the large importers and it is a difficult number to fully estimate—

Mr. HOUGHTON. I mean, are you talking about twice as much, half again as much? You mean, you obviously do some quality probes out there and see some problems.

Did you think very significant amounts of money would be involved here?

Mr. WEISE. Mr. Houghton, in the examples we gave you here today, and I know you would prefer a larger quantification of this, we have cases here where \$1 million, simply because we had the income tax form, but we do now roughly get it half the time.

I don't know in the aftermath of this hearing whether we are still going to get it half the time when we voluntarily ask for it. But it seems to me you can have individual situations where \$1

million or more is identified in terms of additional Customs' duties owed as a result of having the income tax form.

The other thing that I think you need to keep in mind is illustrated in these examples we have given you here today. There are instances when we find, when we look at the income tax forms, compare it to what the Customs Service did, we are able to provide information back to the Internal Revenue Service that may well result in significant additional increases in income taxes collected for which we really can't give you a quantification.

So I think it would be in the magnitude of millions of dollars that would be able to be collected, but I can't give you a solid—

Mr. HOUGHTON. So what you are saying is you don't know. You think there is big money, but the important thing is tightening up the whole process.

Mr. WEISE. Exactly.

Mr. HOUGHTON. Do other foreign governments allow free exchange of information between their customs services and their internal revenue services?

Mr. BANKS. Yes, sir. As a matter of fact, you know, like in Mexico and Canada, they report under the same departments. So to the best of my knowledge, they share that information, the revenue issue, government revenue issue.

Mr. WEISE. One of the ironies is is that our Internal Revenue Service is permitted to share this information with foreign governments, but they are not permitted to share it with us.

Mr. HOUGHTON. Thank you very much.

Mr. FORD. Mr. Herger.

Mr. HERGER. I will pass.

Mr. FORD. No further questions.

What is clear in your last response to the question from the committee is that things will probably get a lot more difficult for you to obtain voluntarily the information that you will need. I mean, that is somewhat clear in what I am hearing from you, and naturally after coming before this committee and identifying these companies, I am sure that it is going to get tougher.

Would it be useful for Customs to be able to request the importers' tax returns from the IRS rather than relying on the importers? I know you have answered that particular question. You are not willing to go on record because I am sure the administration hasn't taken a position as to the relationship and what needed to be repealed in 6103 or just what needed to take place, but it is clear from your testimony today that Customs will need some type of relief in this particular area.

I am not saying that you are an advocate today. I am sure that you are working with the Treasury Department, IRS, and I am sure that the administration will be looking closer and closer at these recommendations that are being—I won't say—not only recommendations but from this testimony here today.

I mean, it is clear that the oversight on the Ways and Means Committee would not want to get into this area until there is such time that a decision is made, but it is interesting to know, you can't tell us directly or indirectly how much revenue is out there, but it is clear from these four on this handout sheet that you brought before this committee today, that there is, in fact, additional revenue.

If all of that would take place and the administration would say yes and the Ways and Means Committee would move in that direction, I know this is not the subject matter today, but how many more employees would you need in order to do the job?

Mr. WEISE. Well—

Mr. FORD. Or could you maintain the same work force and respond to the job and generate more revenue under this?

Mr. WEISE. Mr. Chairman, I would believe if all of that were to take place, that we would have the existing 360 some auditors be more effective in doing the job that they are doing now, and you would see a direct increase of revenue—additional revenue collected.

Clearly we feel if we had additional auditors, we could collect more, but we are not here to try to advocate that. We understand and we are working with the administration to try to reduce the total number of resources we have within the Customs Service to meet his targets.

We know we have got a very difficult fiscal deficit that this President is trying to get a handle on and we are a supporter of that. So we are not coming here even deluding ourselves that there is anything in the cards that is going to result in additional auditors for us.

I think we are trying to make sure that the auditors that we have have all the necessary resources available to them to make them as efficient and effective as they possibly can be and we feel this kind of change would make them more effective.

Mr. FORD. Mr. Herger.

Mr. HERGER. Thank you, Mr. Chairman.

Just in general I certainly want to support, and I believe all of us do, ensuring that we collect those taxes that are due the Federal Government because when we don't, all those who are paying their honest share, end up paying more than their honest share.

I also share the concern, though, of my colleague, Mr. Hancock, in that we not go on fishing expeditions and that is a fine line we walk, and I just want to express that to begin with.

But my understanding is that the Tax Code already prohibits related parties from claiming a higher value under income tax than they claim for Customs' purposes. I guess my question is, why is this taking place? Is there a discrepancy and if there is, why?

Mr. WEISE. Mr. Herger, you are correct. That is in the law now. The difficulty is that without the exchange of information—first of all, that is something that is in the Internal Revenue Code so that is an issue for the IRS when they are looking at assessing taxes, they need to have the Customs' value to compare it in order to carry out the intent of that statute.

It is not something, however, because we don't have the information provided to us, where it really becomes a Customs' issue. So that is an important statute. It does seem to me that what we are talking about this morning would be helpful in making sure that that statute, which is in law now, is effectively carried out.

Mr. HERGER. Would you feel that using the computer—where we are able to compare this—would be helpful to you? Is there a system for doing that now?

Mr. INCH. I will tell you, I think that would be a difficult process, a difficult matching process. There isn't a one-for-one so to speak correlation between the numbers we are looking at here. When doing an audit and coming off the IRS cost of goods sold, there are a lot of adjustments that need to be made to that figure to come to Customs' value.

I mean, a simple example just would be the cost of goods sold figure would include both foreign and domestic purchases. So that is a—we have thought about it, but it seems, at least on the surface, that that would be a difficult matching process in that there is reconciliation work that needs to go on there.

Mr. HERGER. Is your feeling then that this would not be a feasible pursuit?

Mr. INCH. Right now, yes.

Mr. HERGER. I don't have any further questions, Mr. Chairman.

Mr. FORD. Well, I think this is going to sort of wrap it up, Commissioner.

Just one final note. The Internal Revenue, it provides information, tax return information to Mexico for taxing purposes; is that correct?

Mr. WEISE. My understanding is that under 6103 they are permitted to share tax information with foreign governments, but not with the Customs Service.

Mr. FORD. And they do that, right?

Mr. WEISE. To my knowledge, they do that.

Mr. FORD. And you are down the hall and can't get it provided to you?

Mr. WEISE. That is my understanding.

Mr. FORD. I am not trying to create a problem. That is not a major issue here. We just want to look at it and try to respond to the problems on the 6103 and hopefully you will continue your dialog and a good working relationship with the Commissioner of IRS and those at Treasury.

Mr. WEISE. If you would allow me, Mr. Chairman, to say that I do understand the concerns of the Internal Revenue Service and their whole viability depends on compliance and they need to be assured that this information that is given to them is kept in close confidence, and I can understand their worry about once you expand the universe of individuals or agencies that have this available to them, that there is a potential threat that may undermine their fundamental mission.

So I want to work very closely with the Internal Revenue Service, with the Treasury Department in trying to assure that we are able to come up with a solution that addresses their concerns as well as ours so that the U.S. Government in general is working as effectively as we possibly can to carry out our diverse missions.

Mr. FORD. Thank you very much, and I am sure that the Chairman of the subcommittee will have additional questions that he will probably reduce to writing and send over to you.

As I said in the opening session, Mr. Pickle is attending a funeral in Texas of one of his prominent and very close friends.

I think that you have done a good job today in demonstrating that Customs can effectively and efficiently use tax return informa-

tion in the course of auditing the value of goods imported into the United States.

It is clear that Customs could better enforce our trade laws and better collect the appropriate level of duties, taxes and fees if it had access to tax return information.

We should explore how Customs might be given access to tax return information and what limits, if any, should be imposed on that access. To that end, we should discuss this matter with the IRS Commissioner and the appropriate Treasury Department officials and hopefully we can come to some resolution in giving Customs an opportunity to generate more revenue in this particular area.

You certainly have expressed that clearly to this subcommittee today. We do appreciate it. We appreciate you and appreciate your expertise in this area and want you to know that we stand ready to assist and to work with you because it is an area that we all are concerned, both Republicans and Democrats, in seeing how we can generate more revenue dollars to the Treasury at a time that it is so badly needed.

Again, this subcommittee would like to thank you and those who have accompanied you to the subcommittee today and we look forward to a continuing relationship with you.

Mr. WEISE. Thank you very much, Mr. Chairman.

Mr. FORD. Again, thank you very much.

There are no further questions from the other Members of the committee. That will conclude the business of the subcommittee today and I will adjourn the committee at this time.

[Whereupon, at 10:45 a.m., the hearing was adjourned.]

[Submissions for the record follow:]

STATEMENT OF THE AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS

The American Association of Exporters and Importers (AAEI) is a national organization comprised of approximately 1,200 U.S. company-members who export, import, distribute and manufacture a wide range of products, including chemicals, electronics, machinery, footwear, food, toys, specialty items, textiles and apparel. Members also include firms and companies which serve the international trade community, such as customs brokers, freight forwarders, banks, attorneys, insurance firms and carriers.

The issue before the Subcommittee on Oversight is whether Internal Revenue Service (IRS) records, in particular tax returns of importers, should be made available to U.S. Customs for the purpose of aiding in the detection of underpayment of duties (and/or taxes) by importers and U.S. importers related to foreign corporations.

AAEI strongly opposes the wholesale opening of IRS files to Customs. Customs already has more than adequate powers of investigation and enforcement and the contemplated broadening of those powers would do more harm than good.

It should be made clear at the outset that AAEI does not condone the falsification by importers of any reports, returns or records, or failure by importers to pay proper duties and taxes. Those who attempt to defraud the government are rightly liable for civil and criminal penalties. It is also important to recognize the harm they cause to the rest of the importing community, for as a result, industry must bear more than its fair share of the tariff/tax burden. The Association's opposition to the release of IRS records to Customs in no way pardons importer misconduct, nor does AAEI seek to complicate Customs' enforcement task.

Under existing law, Customs has very broad and sufficient access to all relevant information in every importer's files. Section 509 of the Tariff Act of 1930, as amended (19 U.S.C. 1509), already provides that Customs may examine "any record, statement, declaration or other document . . . which may be relevant" to its investigation or inquiry "conducted for the purpose of ascertaining the correctness of any entry, for determining the liability of any person for duty and taxes due, . . . for determining liability for fines and penalties, or for insuring compliance with the laws of the United States." Thus, to the extent any record is at all relevant to Customs issues, the agency currently has clear statutory authority to have access to it. Indeed, we know of no complaint by Customs that its investigatory powers are inadequate.

The fact is the figures in a tax return will usually not be directly relevant to a Customs audit. For example, the importer generally deals partly in domestic goods, partly in duty-free imports, or in partly duty-free goods (e.g., because of U.S.-origin components or engineering design). While the tax return will show figures for the whole business, or a whole line of business, Customs must focus primarily on the dutiable portion of the imports. Customs is interested in other information, as well, but the utilization of tax returns to obtain this information is entirely unnecessary as illustrated by Customs' testimony at the June 17 hearing.

At the hearing, Customs Commissioner, George Weise, testified that access to tax returns would assist the Customs Service in verifying entered values. His testimony included examples of audit cases in which Customs believes access to IRS information was valuable. In the first case, Customs found substantial undervaluation based upon the importer's tax return and substantiating records. While the Commissioner's testimony provides only the bare outlines of this incident, it is clear that the records relied upon by Customs were not tax returns per se, but the substantiating records. In all likelihood, these substantiating records were precisely the records to which Customs normally has access in audits, and otherwise, under Section 509 of the Tariff Act of 1930 (19 U.S.C. Section 1509).

In the second example, an importer claimed no relation to his foreign supplier. Access to the importer's personal tax returns showed that,

in fact, the importer's only source of income was from the foreign supplier. This revelation led to further inquiries, and Customs ultimately determined that the importer had undervalued the imported merchandise. However, examination of an importer's personal tax returns which leads to the discovery of undervaluation hardly exemplifies the usual case.

The third example does not appear to pertain to Customs issues at all. An examination of tax returns by Customs' auditors revealed the possibility that the tax returns were inaccurate. Presumably, the IRS would have found the same error in an audit.

In the final instance, Customs examined the records of an importer who had claimed a Customs value of \$28,000,000 for goods imported over a two-year period. In examining the importer's tax returns, Customs uncovered the amount claimed as cost of goods sold was \$119,000,000. The discrepancy was referred to the IRS. Presumably, the referral to the IRS meant that the Customs entries were correct.

These examples do not justify the examination of tax returns by the Customs Service. As noted earlier, there are numerous circumstances which would justify an apparent discrepancy between the cost of goods reported for Customs purposes and IRS purposes (even one of the magnitude cited in the fourth example above). The imported goods could be components used in manufacturing operations by the importer which would explain a seeming disparity between entered value and cost of goods reported for IRS purposes.

The examples provided in Commissioner Weise's testimony do not substantiate the need for Customs' access to tax returns or the argument that such access will assist the Customs Service in its efforts to ensure the accuracy of entered values. Actually, in two of the four instances cited by Customs, access to the tax returns did not reveal any problems for Customs. Therefore, providing routine access to tax returns by the Customs Service would lead to a massive government fishing expedition.

Furthermore, it is most certainly incorrect that an importer must pay either duty or tax on every item of value which is imported and resold. A very large portion of U.S. imports enter entirely duty-free, and even those who pay duty often include elements of cost which are not dutiable--for example, American components assembled abroad, or the U.S. design and engineering cost on products manufactured abroad to the importers' specifications. Thus, there are some cases in which tax returns contain information useful to a Customs auditor, but not often enough to justify providing Customs with complete access to IRS files without a showing of need and an opportunity for the importer to explain why the two sets of figures may not be designed to measure the same thing.

The present subject appears to have grown out of or become intertwined with the subject of Section 1059A of the Internal Revenue Code. However, as confirmed by the General Accounting Office and the General Counsel of the Treasury Department, this law says only that IF the same element of cost is included in both the dutiable value and the cost of goods sold, that element may not be taken at a higher value for tax deduction purposes than for duty payment. This unexceptionable provision in no way purports to equate dutiable value with the cost of goods sold - as noted above, they do not measure the same thing, and often differ. In any event, the existing U.S. Customs valuation law is based on a multinational agreement (the GATT Customs Valuation "Code", largely drafted by the U.S. for the protection of its exporters) which was implemented by Congress in the 1979 Trade Agreements Act. Any departure from the Code would not only violate a solemn international undertaking, but would be an invitation to our trading partners to retaliate against American exports by reinterpreting their domestic laws implementing the Code.

AAEI thanks the Subcommittee on Oversight for the opportunity to present the views of its members on this important issue.

BEFORE THE
SUBCOMMITTEE ON OVERSIGHT, COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

HEARING TO REVIEW THE U.S. CUSTOMS SERVICE'S
ABILITY TO DETERMINE ACCURATELY THE VALUE OF IMPORTED GOODS
ENTERING THE UNITED STATES

WRITTEN STATEMENT OF THE FLORAL TRADE COUNCIL

July 8, 1993

I INTRODUCTION

These comments are submitted on behalf of the Floral Trade Council, pursuant to the Honorable J.J. Pickle's June 11, 1993, announcement of a hearing on the ability of the U.S. Customs Service ("Customs") to determine accurately the value of imported goods entering the United States. The Floral Trade Council is a U.S. trade association the majority of whose members are domestic producers or wholesalers of fresh cut flowers in the United States and is located at 1152 Haslett Road, Haslett, Michigan 48840 (telephone (517) 339-9765).

The United States is a major market for imported fresh cut flowers. Both regular and special duties are deposited on imported fresh cut flowers.* As the petitioner and an interested party in several of the U.S. Department of Commerce, International Trade Administration's ("ITA") antidumping and countervailing duty proceedings, the Floral Trade Council has a special interest in Customs' liquidation of entries pursuant to those orders as well as its collection of regular customs duties.

* Special duties include antidumping and countervailing duties. Antidumping duty orders are in effect for certain types of fresh cut flowers imported from Colombia, Mexico, Chile, Ecuador, and Kenya. Countervailing duty orders on certain fresh cut flowers are in effect for Ecuador, Chile, the Netherlands, Israel, and Peru. Countervailing duty suspension agreements are in place between the United States and Colombia and the United States and Costa Rica. Certain Fresh Cut Flowers from Colombia, 52 Fed. Reg. 6842 (Dep't Comm. 1987) (Final LTFV Deter.); Miniature Carnations from Colombia, 52 Fed. Reg. 1353 (Dep't Comm. 1987) (Suspension of Invest.); Roses and Other Fresh Cut Flowers, 51 Fed. Reg. 44,930 (Dep't Comm. 1986) (Suspension of Invest.); Certain Fresh Cut Flowers from Costa Rica, 52 Fed. Reg. 1356 (Dep't Comm. 1987) (Suspension of Invest.); Certain Fresh Cut Flowers from Mexico, 52 Fed. Reg. 6361 (Dep't Comm. 1987) (Final LTFV Deter.); Certain Fresh Cut Flowers from Ecuador, 52 Fed. Reg. 2128 (Dep't Comm. 1987) (Final LTFV Deter.); Certain Fresh Cut Flowers from Ecuador, 52 Fed. Reg. 1361 (Dep't Comm. 1987) (Final CVD Deter.); Certain Fresh Cut Flowers from Chile, 52 Fed. Reg. 3313 (Dep't Comm. 1987) (Final CVD Deter.); Standard Carnations from Chile, 52 Fed. Reg. 8939 (Dep't Comm. 1987) (Order); Certain Fresh Cut Flowers from Peru, 52 Fed. Reg. 13,491 (Dep't Comm. 1987) (Final CVD Deter.); Fresh Cut Roses from Israel, 45 Fed. Reg. 58,516 (Dep't Comm. 1980) (Final CVD Deter.); Certain Fresh Cut Flowers from Kenya, 52 Fed. Reg. 13,490 (Dep't Comm. 1987) (Order).

Imported fresh cut flowers are sold on both a direct and a consignment basis in the United States. See, e.g., Competitive Conditions in the U.S. and World Markets for Fresh Cut Roses, Inv. No. 332-263, USITC 2178, at 3-13 (April 1989); Certain Fresh Cut Flowers From Canada, Chile, Colombia, Costa Rica, Ecuador, Israel, and the Netherlands, Inv. Nos. 701-TA-275-78 (Final), USITC 1956, at A-32 (March 1987). When flowers are to be sold on consignment, however, flower importers are unable to report actual transaction values to Customs at the time of entry. Because Customs collects duties on the basis of the importers' claimed transaction value, the issue of whether or not Customs can determine accurately the imported value of merchandise is particularly complex for consignment sales. As a result, Customs has chosen to assign the major flower types monthly "transaction values" for flower imports entered on consignment.

For the reasons expressed below, the Floral Trade Council urges this Subcommittee to adopt legislation addressing Customs' valuation of consigned merchandise. Section 402 of the Tariff Act of 1930, as amended (19 U.S.C. § 1401a), should be further amended to require importers to declare as the "transaction value" upon entry the highest, arm's-length price at which like merchandise was sold, by contract, in the United States or a third country within the last sixty days as the "transaction value" for customs purposes.

II. THE SUBCOMMITTEE SHOULD CONSIDER REVISING 19 U.S.C. § 1401a TO PROVIDE ALTERNATIVE REPORTING REQUIREMENTS FOR IMPORTERS WITH CONSIGNMENT SALES

A. Customs' Assigned Transaction Values Can Result In Inaccurate Duty Collection

Pursuant to Section 402(a)(1) of the Tariff Act of 1930, as amended, (19 U.S.C. § 1401a(a)(1)), Customs has six possible bases on which to appraise imports, in the following order of preference: (1) transaction value of imported merchandise; (2) transaction value of identical merchandise; (3) transaction value of similar merchandise; (4) deductive value; (5) computed value; (6) derivative value (derived from choices established in § 1401(f)). See also 19 C.F.R. 152. Although transaction value is the preferred basis for appraisement, flower importers cannot report actual transaction values for entries to be sold on consignment. According to 19 U.S.C. § 1401a(b), transaction value is the "price actually paid or payable for the merchandise" when sold for exportation to the United States.

Customs has developed a methodology to address the reporting needs of importers of fresh cut flowers entered on consignment. Customs assigns these entries a proxy transaction value pursuant to 19 U.S.C. § 1401a(c). Every month, Customs issues "transaction values" for each major type of flower on country-specific information bulletins. According to the information bulletins, the prices of fresh cut flower imports are "derived from direct sales of fresh-cut flowers exported" from the foreign country. See, e.g., Information Bulletin No. 91-110 (12/30/91). The values listed on the information bulletins also appear to be based on sales prices of flowers sold during the preceding month(s).

Unlike the scenario where the importer reports values for imported merchandise that do not comport with its tax returns, it is Customs that is forced to assign the values to imported merchandise in the case of consignment sales of fresh cut flowers. As a result, the

assigned values can undercollect estimated duties. For example, Customs' information bulletins on certain fresh cut flowers from Colombia during January through July 1992 appear to understate as well as overstate import prices compared to prices during the same period from (1) the U.S. Department of Agriculture's Ornamental Crop Reports, and (2) the calculated FAS Colombia price (the Ornamental Crop Reports price minus commissions (the highest publicly available rate), insurance, freight, and U.S. duty as reported in the U.S. Department of Commerce import statistics).

The inaccuracy of Customs' assigned values is due, in part, to the source of Customs' data. Customs appears to rely on sales prices from the preceding month(s). Reliance on prices in different months may be reasonable for less price-sensitive merchandise. Prices for fresh cut flowers, however, can vary significantly from month to month. With respect to roses, the U.S. International Trade Commission has noted.

The market price for fresh cut roses is especially sensitive to changes in quantities demanded. The demand for roses is high at Easter, Mother's Day, Memorial Day, Thanksgiving, Hanukkah, and Christmas, reaching the peak on Valentine's Day. Prices are low and stable during the summer as a result of low demand. The price of roses is also affected by unexpected changes in the supply of roses.

See USITC 2178, at 3-13. As a result, consignees have a competitive advantage over direct shippers when Customs' assigned values are low.

In this regard, Customs' assigned values are unable to capture the interrelationship of import volumes and value. For example, in months with holidays, such as February (Valentine's Day) and May (Mother's Day), prices will be higher than average. But, because Customs uses the value from a previous month to estimate the entered value, the entered value during February and May will undervalue the flowers in those months. Conversely, in March and June, when imports fall off substantially, even though the estimated entered value is relatively high, it will not generate the same revenue lost during high volume (high value) months.

Moreover, under the present system, Customs is not likely to be apprised of the actual "price paid or payable" in the United States within the meaning of 19 U.S.C. § 1401a(b). Due to the nature of consignment sales, the importer, whether or not related to the foreign producer/exporter, will "reduce" the amount remitted to a foreign producer/exporter by subtracting from the gross price box charges, air freight, import duties, and commissions. If the importer is related, the importer can provide "assists" to the foreign producer by paying the producer/exporters' royalties or providing mother plants or cuttings, or otherwise. This, too, could lead to undervaluation of the flowers on entry and is the value reported to Customs. For these reasons, the amount remitted to the foreign producer/exporter is unlikely to resemble an actual transaction value paid or payable by the ultimate customer. An importer can also defraud Customs by reporting an unnecessarily reduced gross price to reduce its customs duty liability. And, given the sheer volume of transactions, Customs is too overburdened to monitor the actual transaction values of these imports.

B. Customs' Assigned Transaction Values On Fresh Cut Flowers Imported On Consignment Render Inoperative 19 U.S.C. § 1673a(a)

Prior to the Trade Agreements Act of 1979, the antidumping duty statute provided Customs with the power to self-initiate an antidumping duty proceeding. Pursuant to 19 U.S.C. § 1673a(a), ITA now has the power to self-initiate antidumping duty proceedings when an investigation is warranted based on "information available to it." Similarly, an interested party may file a petition on behalf of the domestic industry requesting the initiation of an antidumping duty proceeding. 19 U.S.C. § 1673a(b). ITA's statutory role in administering the antidumping duty law, however, is severely hampered by the inadequate reporting of import values of fresh cut flowers.

Customs' use of assigned values limits the usefulness of U.S. import statistics. Import statistics are an invaluable tool in determining the reasonableness of prices on imported merchandise. Through a comparison of quantity and value data derived from import statistics to information it has on the product's "fair value," ITA can determine the extent of any dumping margin caused by sales of imported merchandise. Likewise, a domestic industry can compare quantity and value data in import statistics to its own prices. Section 1673a(a), however, is rendered inoperative in the case of fresh cut flowers.

The U.S. Department of Commerce, Bureau of the Census compiles its import statistics based on the information importers report on consumption entry forms, including assigned transaction values. Monthly import statistics do not differentiate between imports entered pursuant to a consignment sale or imports entered pursuant to a final invoice. As a result, neither ITA nor the potential petitioner in an antidumping duty proceeding is able to rely, to the same extent as they would for other products, on the import statistics. Although there may be little pressure for Customs to assign accurate values to flowers that are imported duty-free under the various bilateral agreements and preferential programs, Customs' administration of 19 U.S.C. § 1401a should not interfere with the proper functioning of 19 U.S.C. § 1673a(a).

C. ITA Should Instruct Customs To Calculate The Estimated Duty Deposit Rate and The Assessment Rate For Antidumping Duties With A More Realistic Entered Value Figure

Customs' assignment of transaction values (or entered values) to consignment sales of fresh cut flowers also affects ITA's calculation and Customs' collection of antidumping duties on flowers covered by an order. At the present time, Customs assesses antidumping duties on post-shipment sales (or "exporters sales price sales") by multiplying the entered value (or assigned transaction value) by the assessment rate. The assessment rate is (1) the difference between foreign market value and the U.S. price (potential uncollected dumping duty or "PUDD") calculated by ITA during a proceeding, and (2) divided by the entered value (such as the assigned transaction value in the case of flowers on consignment). In contrast, Customs collects estimated deposits of antidumping duties on exporters sales price sales by multiplying the entered value (or assigned transaction value) of the merchandise by the estimated duty deposit rate. The estimated duty deposit rate is (1) the difference between foreign market value and the U.S. price

(potential uncollected dumping duty or "PUDD") calculated by ITA during a proceeding, and (2) divided by the net U.S. price. If the U.S. price does not equal the entered value of the flowers, then the amount of duty collected when the estimated rate is applied to an entered value will under- or over-collect antidumping duties.

Furthermore, it is clear that the discrepancy between the actual sales price reported to ITA during the course of the antidumping duty proceedings and the entered value, or assigned transaction value in the case of flowers imported on consignment, can have a huge impact on Customs' duty collection. See 19 U.S.C. § 1675(a)(1)(B) & (2). For example, assume that 10,000 standard carnations entered the United States during January 1992 and were resold by consignment agents at \$.10 each (i.e., \$1,000 total). Assume further that the foreign market value for these carnations was \$.15 each. The PUDD would then equal \$.05 per stem (\$500). The estimated duty deposit rate on this basis would be $$.05/10 = 50$ percent. Yet, if the 50 percent duty deposit rate is then applied to an entered value (or assigned transaction value) of \$.06, the actual duty assessed will equal \$.03 per stem (\$300 total). In contrast, the assessment rate for the same entry would be $$.05/106 = 83$ percent applied to an entered value of \$.06 would result in the collection of \$.05 per stem (\$500 total). Both calculation methodologies can undercollect antidumping duties when Customs' assigned transaction value (\$.06) is used instead of the entered value (\$.10) for purposes of duty collection. Consequently, the Floral Trade Council would support ITA's use of a revised entered value that reflects commercial reality as well as the use of entered value as the denominator in calculating the estimated duty deposit rate and the assessment rate.

III. CONCLUSION

The Floral Trade Council urges the Subcommittee to consider adopting legislation that would resolve Customs' valuation problems presented by consignment sales. The sales and marketing practices in this industry (1) preclude Customs from monitoring the accuracy of final valuation, (2) limit the usefulness of government import statistics rendering 19 U.S.C. § 1673a(a) inoperative, and (3) further undermine ITA's calculation of the estimated duty deposit rate and the assessment rate used to collect antidumping duties. Therefore, the Subcommittee should amend 19 U.S.C. § 1401a to allow Customs to obtain sales "invoices" from importers/consignment to provide Customs agents with a more realistic "transaction value" for customs duty purposes. In the case of consignment sales, the sales "invoice" should declare the highest, arm's-length price at which like merchandise was sold, by contract, in the United States or a third country within the last sixty days. In this manner, the danger of under-collecting customs duties and importer fraud is minimized. Because the importer will receive interest on over-deposits of estimated antidumping duties, any additional burden on imports is offset. 19 U.S.C. § 1677g. It is the importer, not Customs, that is most able to assign a realistic value to merchandise entered on consignment.

Respectfully submitted,

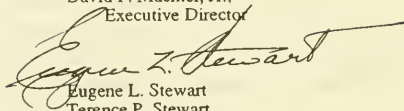
FLORAL TRADE COUNCIL

Timothy J. Haley.

President

David F. Machtel, Jr.,

Executive Director

A handwritten signature in dark ink, appearing to read "Eugene L. Stewart". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Eugene L. Stewart

Terence P. Stewart

James R. Cannon, Jr.

Amy S. Dwyer

STEWART AND STEWART

808 Seventeenth Street, N.W.

Washington, DC 20006

Telephone: (202) 785-4185

Special Counsel to the

Floral Trade Council

Date: July 8, 1993
Washington, DC

BEFORE THE
SUBCOMMITTEE ON OVERSIGHT, COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

HEARING TO REVIEW THE U.S. CUSTOMS SERVICE'S
ABILITY TO DETERMINE ACCURATELY THE VALUE OF IMPORTED GOODS
ENTERING THE UNITED STATES

WRITTEN STATEMENT OF THE TIMKEN COMPANY

July 8, 1993

I. INTRODUCTION

These comments are submitted on behalf of The Timken Company, pursuant to the Honorable J.J. Pickle's June 11, 1993, announcement of a hearing on the ability of the U.S. Customs Service to determine accurately the value of imported goods entering the United States. The Timken Company, a domestic producer of tapered roller bearings, provides its written comments for the printed record in the captioned hearing as follows. The Timken Company believes that its views are representative of the domestic bearing industry and will provide the Committee with an understanding of an important aspect of the Custom's valuation issue.

In a domestic industry plagued by unfairly-traded imports from abroad, in particular from Japan, The Timken Company has three times sought relief from the harm caused by such imports under the United States antidumping law. As a result of Timken's efforts, antidumping duty orders have been placed on imports of tapered roller bearings from Japan, Italy, Romania, Hungary, the People's Republic of China, and Yugoslavia. The relative amounts of these duties, as a percentage of import price, have been, for the most part, quite high. Nonetheless, it has been The Timken Company's experience that the amount of dumping calculated by the Commerce Department is not translated into a duty that fully corrects for dumping in terms of resale prices.

In part, this observed fact results from the situation that the major and primary importers of dumped bearings are subsidiaries of the Japanese and other foreign bearing producers. Given that their subsidiaries pay any duties and given that the entered value of the imports - which determine the amount paid - is most often set on the basis of a transfer price, these multinational companies can blunt the impact of an antidumping duty order through intra-company transfer price. This poses an obvious problem for customs valuation.

II. MULTINATIONAL COMPANIES TRANSFER FUNDS BY
MANIPULATING TRANSFER PRICES.

It is well-recognized that multinational corporations ("MNCs") transfer funds internationally through administering prices between member entities. As explained in Ernst & Young, International Transfer Pricing, Research Report No. F-202 (1991):

If an MNC wishes to move funds out of one country, it may consider charging higher prices on goods sold to its local affiliate. Similarly, an MNC may indirectly finance an affiliate by lowering the prices on goods sold to it. [Emphasis added.]

Id. at 2. Ernst & Young specifically note that tariffs and taxes can be minimized through manipulation of related-party prices. International Transfer Pricing at 4.

These realities are addressed in law. In the context of antidumping law, transactions between related parties may be disregarded in calculating "constructed value" if a particular price "does not fairly reflect the amount usually reflected in sales in the market ***." 19 U.S.C. § 1677b(e)(2). Similarly, in customs appraisal law, transfer prices are acceptable for valuation only when they approximate arm's-length prices, i.e., approximate prices charged to unrelated buyers. As provided in 19 U.S.C. § 1401a(b), "transaction value" (the preferred basis for customs appraisal) applies in related-party importations only if the relationship of the parties did not influence the prices between them, or if the prices closely approximate another basis of appraisal, *see* 19 U.S.C. § 1401a(b)(2)(B)(ii), such as the "computed value" of the imported goods. "Computed value" is, of course, cost of production plus reasonable profit, 19 U.S.C. § 1401a(e), meaning that a transfer price below production costs will not be regarded as arm's-length.

Finally, section 482 of the Internal Revenue Code, 26 U.S.C. § 482, authorizes the Internal Revenue Service to reallocate income between related entities when necessary to prevent tax evasion or otherwise to reflect true income earned. Numerous cases demonstrate the rule. *See, e.g., E.I. DuPont de Nemours and Co. v. United States*, 608 F.2d 445, 450 (Ct. Cl. 1979), *cert. denied*, 445 U.S. 962 (1980); *Baldwin-Lima-Hamilton Corp. v. United States*, 435 F.2d 182, 185-87 (7th Cir. 1970); *Eli Lilly and Company v. United States*, 372 F.2d 990, 1,000 (Ct. Cl. 1967). In each, income reallocation was necessary because transfer prices could not be used. *See also* Federal Tax Regulations:

Since unrelated parties normally sell products at a profit, an arm's length price normally involves a profit to the seller.

26 C.F.R. § 1.482-2(e)(1)(i) (1992).

These laws are all consistent with commercial reality as described by Ernst & Young, *supra*. The laws recognize that artificially low transfer prices can be tantamount to transfers of funds and that such prices must be judged by objective criteria.

III. THE COVERAGE OF IMPORTED GOODS BY AN ANTIDUMPING OR COUNTERVAILING DUTY ORDER PROVIDES FOREIGN PRODUCERS WITH SIGNIFICANT INCENTIVES TO MANIPULATE TRANSFER PRICES.

In the case of imported goods covered by an antidumping duty order, the imposition of dumping duties provides a number of incentives to foreign producers to manipulate transfer prices so as to assist a U.S. domestic subsidiary. For example, by lowering their transfer prices, foreign producers and their U.S. subsidiaries, first, decrease the amount of regular duty paid (which is a percentage of the entered value), and,

second, finance the payment of any antidumping duties owed.

Also, it is the current practice of the Commerce Department to instruct the Customs Service to collect cash deposits of antidumping duties based on an *ad valorem* rate that has been calculated based on sales prices; that is, the duty deposit rate is a ratio of the amount of this dumping margin divided by the U.S. price. This ratio, expressed as a percentage, is then applied to the entered value of imported goods when customs collects cash deposits. So, if the entered value is lower than the U.S. price of the merchandise, the duty deposited will be less than the full dumping margin. Where a U.S. subsidiary of a foreign producer is the importer, that *ad valorem* rate is applied to transfer price rather than sales price because sales prices are not known at the time of importation. Hence there is a strong incentive for related parties to adjust transfer prices downwards in order to reduce the dumping duty deposited. This permits the U.S. subsidiary to continue selling without raising its U.S. prices. The dumping duties are thus effectively financed by the off-shore parent.

In addition, in a situation involving a U.S. subsidiary, there is a strong incentive to move costs from the subsidiary to the parent so that U.S. resale prices will not be reduced by those costs; the higher the U.S. price, the lower the amount of dumping found.

In fact, the Department of Commerce has recognized one form of funds transfer that may be accomplished in contravention of the intent of the statute with its reimbursement regulation.

Section 353.26 of the Antidumping Regulations provides as follows:

Reimbursement of antidumping duties.

(a) In general. (1) In calculating the United States price [one variation of which is "exporter's sales price," see 19 U.S.C. § 1677a(c)], the Secretary will deduct the amount of any antidumping duty which the producer or reseller:

(i) Paid directly on behalf of the importer; or

(ii) Reimbursed to the importer. ***

In 1966, then Deputy Assistant Secretary of the Treasury James Pomeroy Hendrick spoke on the administration of the antidumping law to explain the specific purpose of the predecessor to this regulation. In written background materials for his speech, he provided this explanation:

Reimbursement of Dumping Duties

Assuming one has a case involving true predatory dumping, the foreign producer will not mind how much he spends over a reasonably short space of time in order to put the United States competition out of business. With this in mind, a foreign producer could be successful if he promised his United States importer that whatever dumping duties might be assessed would be reimbursed. Should such a guaranty be unconditionally allowed, a dumping finding would be ineffective. The purpose of a dumping finding is to raise the importer's purchase price to an amount equal to the foreign producer's home price, with the usual result that the importer's resale price to the United States market will at least be correspondingly increased, and with the further result that the foreign producer will either (1) increase the price to the

importer by an equivalent amount (because he would rather have this in his own pocket than in Uncle Sam's pocket) or (2) discontinue selling (because the addition added on to the importer's resale price will make the product too expensive to meet United States domestic production competition). But if the dumping duty is paid for by the foreign producer, the economic pressure on the importer is relieved, and the importer can continue to market the import in the United States at a price uninfluenced by this duty.

Bearing this in mind, an amendment to the Customs regulations was published in 1960 the effect of which was to increase the amount of any dumping duties by the amount of reimbursement thereof. *** [Footnote omitted.]

James Pomeroy Hendrick, Background Material for Remarks to be made at Customs Seminar, Synthetic Organic Chemical Manufacturers Association, New York, New York, November 10, 1966, on Administration of the United States Antidumping Act 25-26.¹

IV. THERE ARE A NUMBER OF INDICATIONS THAT TRANSFER PRICES FOR COVERED GOODS ARE BEING MANIPULATED.

For the reasons discussed above, there is an incentive to use transfer prices that are lower than those that would be paid in an arm's length transaction to a U.S. subsidiary whenever imported merchandise is covered by an antidumping duty order. (This is opposite to the incentive created by tax avoidance strategies relying on transfer prices that are artificially high.) There are a number of different indicators that suggest the frequent occurrence of abusive transfer pricing practices in connection with goods covered by antidumping duty orders. The Timken Company reviews three of them:

(1) A Recent Department of Commerce Finding

In a 1992 final determination following administrative reviews of antidumping duty orders covering antifriction bearings, the petitioner in the original investigation computed values for imported merchandise by adding the cost of production reported by the importer and a profit amount. These values were compared to transfer prices and the transfer prices were found to be lower for a number of firms. Antifriction Bearings (Other Than Tapered Roller Bearings) and Parts Thereof From France; et al, 57 Fed. Reg. 28,360, 28,370 (Dep't Commerce, 1992) (final results A/D admin. rev.). When transfer prices are below cost, they are not likely at arm's length value within the meaning of § 1401a(b)(2)(B).

(2) A Foreign Producer's Admission

One of the major Japanese bearing companies, Koyo Seiko Co., Ltd., in a recent antidumping proceeding filed a brief with the Department of Commerce which stated that "[m]oneys are transferred among related parties on a regular basis, and through a number of means, of which transfer pricing is only one."² While acknowledging that the

¹ At the time, Mr. Hendrick was the Treasury Department official who administered the antidumping law.

² Inv. No. A-100-001, Antifriction Bearings (Other Than Tapered Roller Bearings) and Parts Thereof (Section 751 Review for the Period May 1, 1991 through April 30, 1992), Koyo Rebuttal Brief of May 19, 1993, at 23.

U.S. Customs service monitors transfer prices, Koyo also said, "affiliated companies often transfer merchandise at prices that are at or slightly above cost, thus transferring some portion of their profits to other affiliates."³ Thus, a major Japanese company that is a significant exporter to the United States has acknowledged the use of transfer pricing to transfer funds among related parties. A transfer price at cost does not conform to the requirement of 19 U.S.C. § 1401a(b), that it be equal to a "transaction value" that is not influenced by the relationship between parties or that it be equal to the "computed value," defined as cost of production plus reasonable profit in 19 U.S.C. § 1401a(e).

(3) Import Statistics

Two major U.S. subsidiaries of Japanese producers who have been found in the past to be dumping are those of the NTN Corporation and Koyo Seiko Co., Ltd. NTN Bearing Corporation of America is headquartered in Illinois; and the American Koyo Corporation in Ohio. As shown in the attached charts, tapered roller bearing sets under four inches in outer diameter imported into Chicago, Illinois, and into Cleveland, Ohio, are significantly lower in average price on a dollar-per-kilo basis, than the average for all such tapered roller bearings sets imported into other ports. This strongly suggests that transfer prices are being manipulated.

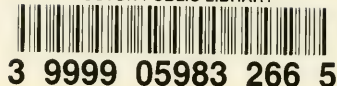
V. CONCLUSION

Importers of foreign goods have the financial incentives to report low transfer prices for import purposes and high transfer prices for tax purposes that are described in this Subcommittee's press release. In addition to those powerful incentives, the importer of dumped goods has additional incentives to report artificially low transfer prices. Thus the problem identified by the Subcommittee is particularly acute for such goods. Transfer price misreporting of dumped goods not only reduces U.S. revenues, but also particularly harms the U.S. industry that has sought a remedy under the U.S. trade laws. Despite the existence of an antidumping duty order, the foreign producer is able to employ its significant capital resources to keep its U.S.-based subsidiary in competition with domestic industry at prices that do not reflect the costs properly attributable to the imported merchandise.

For these reasons, The Timken Company urges the Subcommittee to investigate thoroughly these issues and to determine what assistance may be given to the U.S. Customs Service to enable it to determine whether inaccurate transfer values are being reported.

The Timken Company suggests that the Congress may enhance the ability of the Commerce Department to communicate with the Customs Service by removing existing barriers to the sharing of proprietary information obtained by the Commerce Department during the course of an antidumping or countervailing duty proceeding. At present, 19 U.S.C. § 1677f(b)(1) prohibits Commerce from sharing proprietary information with any

³ Id. at 24.



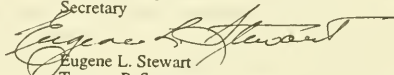
representative of the U.S. Customs Service unless that individual is engaged directly in a fraud investigation. If Commerce were allowed more flexibility in its communications with Customs, it could advise Customs of circumstances which suggest the manipulation of transfer prices between foreign producers and their U.S. subsidiaries. For example:

- (1) there were radical changes in transfer prices just before or after preliminary determinations in original investigations, or
- (2) there are significant quantities of U.S. sales of products below the cost of their production, or
- (3) in the instance of a foreign producer of multiple products, significant changes in the prices of products not covered by an antidumping duty order are made when an order goes into effect (such an occurrence would suggest that the U.S. subsidiary of the foreign producer is offering a combination of products where the goods not covered are sold at very low prices and the covered goods at high prices).

The Timken Company urges the Congress to take whatever steps are necessary to allow the U.S. Customs Service and the U.S. Commerce Department to work independently and in cooperation to identify from available information those cases in which undervaluation of imported merchandise is indicated. This will help to ensure that accurate amounts of regular and special duties are collected and that the remedies the Congress intended to provide domestic industries with the antidumping and countervailing duty laws are achieved.

Respectfully submitted,

THE TIMKEN COMPANY
Scott A. Scherff, Esq.
Director - Legal Services & Assistant
Secretary



Eugene L. Stewart
Terence P. Stewart
James R. Cannon, Jr.
William A. Fennell

STEWART AND STEWART
808 Seventeenth Street, N.W.
Washington, DC 20006
Telephone: (202) 785-4185

Special Counsel to
The Timken Company

Date: July 8, 1993
Washington, DC

U.S. GENERAL IMPORTS FROM JAPAN OF TAPERED ROLLER
BEARING SETS NOT EXCEEDING 102 M, HTS 8482.20.0040

in U.S. \$/Kilogram

<u>YEAR</u>	<u>MONTH</u>	<u>CHICAGO, IL</u>	<u>CLEVELAND, OH</u>	<u>ALL OTHER</u>
1991	JAN	\$8.98	\$10.06	\$10.11
1991	FEB	\$9.14	\$10.04	\$8.91
1991	MAR	\$8.66	\$8.43	\$9.65
1991	APR	\$8.82	\$7.20	\$8.80
1991	MAY	\$8.38	\$6.74	\$13.06
1991	JUN	\$8.86	\$7.49	\$10.02
1991	JUL	\$9.69	\$7.74	\$11.53
1991	AUG	\$8.72	\$7.75	\$11.84
1991	SEP	\$9.33	\$5.61	\$10.69
1991	OCT	\$9.95	\$5.61	\$13.41
1991	NOV	\$8.81	\$6.06	\$15.24
1991	DEC	\$10.35	\$6.23	\$15.05
1992	JAN	\$9.94	\$8.17	\$11.73
1992	FEB	\$9.23	\$7.80	\$10.93
1992	MAR	\$9.73	\$8.66	\$10.86
1992	APR	\$9.82	\$9.82	\$12.35
1992	MAY	\$8.23	\$12.77	\$14.46
1992	JUN	\$9.07	\$13.23	\$11.52
1992	JUL	\$10.12	\$9.78	\$14.45
1992	AUG	\$9.38	\$19.39	\$10.58
1992	SEP	\$8.81	\$11.80	\$11.21
1992	OCT	\$9.11	\$11.29	\$12.74
1992	NOV	\$8.83	\$13.13	\$11.10
1992	DEC	\$9.88	\$7.61	\$15.07

Data from the U.S. Department of Commerce, Bureau of the Census, general import statistics.



ISBN 0-16-041351-6



9 780160 413513